

**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM F-1**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

**Futu Holdings Limited**  
(Exact name of Registrant as specified in its charter)

**Not Applicable**  
(Translation of Registrant's name into English)

**Cayman Islands**  
(State or other jurisdiction of  
incorporation or organization)

**6211**  
(Primary Standard Industrial  
Classification Code Number)

**Not Applicable**  
(I.R.S. Employer  
Identification Number)

**11/F, Bangkok Bank Building**  
**No. 18 Bonham Strand W, Sheung Wan**  
**Hong Kong S.A.R., People's Republic of China**  
**+852 2523-3588**  
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Puglisi & Associates**  
**850 Library Avenue, Suite 204**  
**Newark, Delaware 19711**  
**+1 302-738-6680**  
(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

**Z. Julie Gao, Esq.**  
**Will Cai, Esq.**  
**Skadden, Arps, Slate, Meagher & Flom LLP**  
**c/o 42/F, Edinburgh Tower, The Landmark**  
**15 Queen's Road Central**  
**Hong Kong**  
**+852 3740-4700**

**Benjamin Su, Esq.**  
**Ji Liu, Esq.**  
**Daying Zhang, Esq.**  
**Latham & Watkins LLP**  
**18th Floor, One Exchange Square**  
**8 Connaught Place**  
**Central, Hong Kong**  
**+852 2912-2500**

**Approximate date of commencement of proposed sale to the public:**  
**as soon as practicable after the effective date of this registration statement.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933.

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 7(a)(2)(B) of the Securities Act.

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Proposed maximum aggregate offering price(2)(3)</b>	<b>Amount of registration fee</b>
Class A Ordinary Shares, par value US\$0.00001 per share(1)(2)	US\$300,000,000	US\$36,360

- (1) American depositary shares issuable upon deposit of Class A ordinary shares registered hereby will be registered under a separate registration statement on Form F-6 (Registration No. 333- ). Each American depositary share represents Class A ordinary shares.
- (2) Includes Class A ordinary shares that are issuable upon the exercise of the underwriters' over-allotment option. Also includes Class A ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public. These Class A ordinary shares are not being registered for the purpose of sales outside the United States.
- (3) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

---

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

---

[Table of Contents](#)

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion) Issued \_\_\_\_\_, 2018.

American Depositary Shares  
  
Futu Holdings Limited

Representing \_\_\_\_\_ Class A Ordinary Shares

This is an initial public offering of \_\_\_\_\_ American depositary shares, or ADSs, by Futu Holdings Limited. Each ADS represents \_\_\_\_\_ Class A ordinary shares, par value US\$0.00001 per share. It is currently estimated that the initial public offering price per ADS will be between US\$ \_\_\_\_\_ and US\$ \_\_\_\_\_.

Prior to this offering, there has been no public market for the ADSs or our shares. We intend to apply for the listing of the ADSs on the Nasdaq Global Market under the symbol “FHL.”

We are an “emerging growth company” under applicable U.S. federal securities laws and are eligible for reduced public company reporting requirements.

See “[Risk Factors](#)” beginning on page 18 for factors you should consider before investing in the ADSs.

PRICE US\$ \_\_\_\_\_ PER ADS \_\_\_\_\_

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to us
Per ADS	US\$ _____	US\$ _____	US\$ _____
Total	US\$ _____	US\$ _____	US\$ _____

(1) See “Underwriting” for additional disclosure regarding underwriting compensation payable by us.

We have granted the underwriters the right to purchase up to an additional ADSs to cover over-allotments within 30 days after the date of this prospectus.

Upon the completion of this offering, our outstanding shares will consist of Class A ordinary shares and Class B ordinary shares, and we will be a “controlled company” as defined under the Nasdaq Stock Market Rules because Mr. Leaf Hua Li, our founder, chairman of the board of directors and chief executive officer, and Qiantang River Investment Limited, an existing shareholder of ours will beneficially own all of our then issued Class B ordinary shares and will be able to exercise \_\_\_\_\_ % of the total voting power of our issued and outstanding shares if the underwriters do not exercise their over-allotment option, or \_\_\_\_\_ % if the underwriters exercise their over-allotment option in full. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes and is convertible into one Class A ordinary share at any time by the holders thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

The underwriters expect to deliver the ADSs against payment in U.S. dollars in New York, New York on or about \_\_\_\_\_, 2018.

Goldman Sachs (Asia) L.L.C.

UBS Investment Bank

Credit Suisse

Prospectus dated \_\_\_\_\_, 2018.



Futu Ranks **#4** in Hong Kong Online Retail Securities Market and **#2** in China's Overseas Online Retail Securities Market<sup>1</sup>



**5.3mm**  
Users

**457K**  
Registered Clients

**124K**  
Paying Clients



HK SFC<sup>2</sup> and  
US FINRA  
Licences



HK\$ **584M**  
Total Revenue  
in 9M2018



**227%**  
Revenue Growth  
YoY in 9M2018



HK\$ **100M**  
Net Profit in 9M2018

**Tencent**  
**matrix**  
**SEQUOIA**

Key Institutional  
Investors



HK\$ **678B**  
Total Trading  
Volume in 9M2018



HK\$ **54B**  
Client Assets



HK\$ **3.6B**  
Margin Balance

**Note:**

As of Sep 30, 2018, or for the nine months ended Sep 30, 2018 unless otherwise noted; "Users" are to the number of user accounts registered with our Futu NiuNiu applications or websites, "Registered clients" or "Clients" are to the number of users who open one or more trading accounts on our platform, "Paying clients" are to the number of the clients with assets in their trading accounts on our platform

1. Oliver Wyman report; based on estimated online brokerage revenue for the six months ended June 30, 2018

2. Type 1, 2, 4, 5, 9 licenses from HK SFC

We are an advanced **technology company**  
transforming the investing experience by offering a **fully digitized brokerage platform**



TABLE OF CONTENTS

	Page
<a href="#">PROSPECTUS SUMMARY</a>	1
<a href="#">THE OFFERING</a>	11
<a href="#">SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA</a>	13
<a href="#">RISK FACTORS</a>	18
<a href="#">SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</a>	62
<a href="#">USE OF PROCEEDS</a>	64
<a href="#">DIVIDEND POLICY</a>	65
<a href="#">CAPITALIZATION</a>	66
<a href="#">DILUTION</a>	68
<a href="#">EXCHANGE RATE INFORMATION</a>	70
<a href="#">ENFORCEABILITY OF CIVIL LIABILITIES</a>	72
<a href="#">CORPORATE HISTORY AND STRUCTURE</a>	74
<a href="#">SELECTED CONSOLIDATED FINANCIAL DATA</a>	78
<a href="#">MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	82
<a href="#">INDUSTRY</a>	112
<a href="#">BUSINESS</a>	119
<a href="#">REGULATION</a>	148
<a href="#">MANAGEMENT</a>	172
<a href="#">PRINCIPAL SHAREHOLDERS</a>	180
<a href="#">RELATED PARTY TRANSACTIONS</a>	183
<a href="#">DESCRIPTION OF SHARE CAPITAL</a>	185
<a href="#">DESCRIPTION OF AMERICAN DEPOSITARY SHARES</a>	196
<a href="#">SHARES ELIGIBLE FOR FUTURE SALES</a>	204
<a href="#">TAXATION</a>	206
<a href="#">UNDERWRITING</a>	213
<a href="#">EXPENSES RELATED TO THIS OFFERING</a>	222
<a href="#">LEGAL MATTERS</a>	223
<a href="#">EXPERTS</a>	224
<a href="#">WHERE YOU CAN FIND ADDITIONAL INFORMATION</a>	225
<a href="#">INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</a>	F-1
<a href="#">INDEX TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</a>	F-1

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the ADSs offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Neither we nor any of the underwriters has done anything that would permit this offering or possession or distribution of this prospectus or any filed free writing prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus or any filed free writing prospectus must inform themselves about, and observe any restrictions relating to, the offering of the ADSs and the distribution of this prospectus or any filed free writing prospectus outside of the United States.

**Until \_\_\_\_\_, 2018 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in the ADSs discussed under “Risk Factors,” before deciding whether to invest in the ADSs. This prospectus contains information from an industry report commissioned by us and prepared by Oliver Wyman Consulting (Shanghai) Limited, or Oliver Wyman, an independent research firm, to provide information regarding our industry and our market position in Hong Kong.*

### **Our Mission**

We strive to redefine traditional investing with proprietary technologies and a relentless focus on user experience, providing a gateway to building the world’s leading digital financial institution.

### **Our Business**

We are an advanced technology company transforming the investing experience by offering a fully digitized brokerage platform. Technology permeates every part of our business, allowing us to offer a redefined user experience built upon an agile, stable, scalable and secure platform. We primarily serve the emerging affluent Chinese population, pursuing a massive opportunity to facilitate a once-in-a-generation shift in the wealth management industry and build a digital gateway into broader financial services. As of September 30, 2018, we had an attractive and rapidly growing user base of 5.3 million, over 457,000 registered clients, defined as users who have opened trading accounts with us, and over 124,000 paying clients, defined as registered clients who have assets in their trading accounts. For the six months ended June 30, 2018, we brokered HK\$478.2 billion (US\$61.1 billion) in client trades, underlying a brokerage revenue base which ranked fourth among Hong Kong online retail brokers according to Oliver Wyman. We brokered HK\$678.0 billion (US\$86.6 billion) in client trades for the nine months ended September 30, 2018.

We launched our business on the premise that no one should be precluded from investing on the basis of prohibitive transaction costs or market inexperience. We thus designed a platform around an elegant user experience integrating clear and relevant market data, social collaboration and best-in-class trade execution, finding that by delivering our vision through a purpose-built technology infrastructure we could disrupt traditional investing conventions. Over the last eight years we have continuously enhanced our technology and built a comprehensive, user-oriented and cloud-based platform that is fully-licensed to conduct securities brokerage business in Hong Kong. This serves as a foundation from which we execute our growth strategies with an operating efficiency that allows us to offer commission rates that are approximately one-fifth of the average rate offered by the leading players in Hong Kong, according to Oliver Wyman, creating a massive barrier to entry. As of September 30, 2018, approximately 66% of our workforce was dedicated to research and development, reflecting the degree to which technological excellence is entrenched in every aspect of our business.

We provide investing services through our proprietary digital platform, *Futu NiuNiu*, a highly integrated application accessible through any mobile device, tablet or desktop. Our primary fee-generating services include trade execution and margin financing which allow our clients to trade securities, such as stocks, warrants, options and exchange-traded funds, or ETFs, across different markets. We surround our trading and margin financing services and enhance our user and client experience with market data and news, research, as well as powerful analytical tools, providing our clients with a data rich foundation to simplify the investing decision-making process.

We broaden our reach and promote the exchange of information through *NiuNiu Community*, our social network services. In contrast to traditional investing platforms and other online brokers, we have embedded social media tools to create a network centered around our users and provide connectivity to users, investors, companies, analysts, media and key opinion leaders. This fosters the free flow of information, reduces information asymmetry and supports the investing decision-making process. For instance, users can exchange market views, watch live broadcasts of corporate events and participate in investment education courses offered through the *NiuNiu Classroom*. Importantly, our social network serves as a powerful engagement tool where in September 2018, the average DAUs reached over 169,000. In addition, in September 2018, users who were active on a daily basis spent an average of 26 minutes per trading day through our *Futu NiuNiu* platform on our mobile application. These user activities provide invaluable user data which informs our product development and monetization efforts.

We have a young, active and rapidly expanding user and client base. Our clients are, on average, 34 years old and generally high earning. Approximately 44.7% of our clients work in internet, information technology or financial services industries. On average, a client who traded in the nine months ended September 30, 2018 executed over 162 trades with a total trading volume of HK\$6.2 million (US\$0.8 million). Our total client asset balance increased from HK\$15.5 billion as of December 31, 2016 to HK\$44.4 billion (US\$5.7 billion) as of December 31, 2017, and further increased to HK\$54.2 billion (US\$6.9 billion) as of September 30, 2018. Furthermore, our client base is loyal. We retained over 95% of our paying client base on a quarterly basis in 2016, and have retained over 97% of our paying client base on a quarterly basis since the beginning of 2017. We grow our client base mainly through online and offline marketing and promotional activities, including those through external marketing channels that we cooperate with and directly pay for as well as promotions and marketing campaigns conducted by us on our platform, word-of-mouth referrals and our corporate services. For the nine months ended September 30, 2018, approximately 18.5% of our client acquisition was through our corporate services.

We work with our strategic investor, Tencent Holdings Limited (“Tencent”), across a number of cooperation areas in a mutually beneficial relationship. Our collaboration is in part driven by our shared values of technological excellence and innovation. Collaborating with Tencent creates meaningful advantages to us. In December 2018, Shenzhen Futu, one of our operating entities in China, entered into a strategic cooperation framework agreement with Shenzhen Tencent Computer System Co., Ltd. (深圳市腾讯计算机系统有限公司), a subsidiary of Tencent. Pursuant to the strategic cooperation framework agreement, subject to further definitive agreements to be entered into between the parties and to the extent in compliance with applicable laws and regulations, Tencent agreed to cooperate with us in traffic, content and cloud areas through Tencent’s online platform. In addition, to the extent permitted by the applicable laws and regulations, we and Tencent agreed to further explore and pursue additional cooperation opportunities for potential cooperation in the area of fintech-related products and services to expand both parties’ international operations. Tencent also agreed to cooperate with us in the areas of ESOP services, administration, talent recruiting and training.

We have achieved significant growth in our user and client base, client assets, trading volumes and revenues. Our paying clients increased by 125.8% from 35,456 as of December 31, 2016 to 80,057 as of December 31, 2017, and increased by 98.4% from 62,899 as of September 30, 2017 to 124,809 as of September 30, 2018. Our growing paying client base allowed us to increase client assets and trading volumes by 186.0% and 164.4%, respectively, in 2017 as compared to 2016, and by 58.9% and 101.2%, respectively, for the nine months ended September 30, 2018 as compared to the same period of 2017. In comparison, the trading volume grew 14.5% from 2016 to 2017 on the global online securities markets, and grew 54.4% from 2016 to 2017 on the Hong Kong online securities market, according to Oliver Wyman. We believe the faster growth rate of our trading volume during the same years was mainly attributable to our unique competitive strengths such as the superior investing experience we provide through our fully digitalized brokerage platform, which have enabled us to rapidly and continually expand our client base and have fueled the strong momentum of our business. Our revenues reached HK\$311.7 million (US\$39.8 million) in 2017, representing a 258.2% increase

from HK\$87.0 million in 2016, and of HK\$584.2 million (US\$74.6 million) for the nine months ended September 30, 2018, representing a 227.5% increase from HK\$178.4 million for the same period of 2017. We were able to decrease our net loss from HK\$98.5 million in 2016 to HK\$8.1 million (US\$1.0 million) in 2017. We had net income of HK\$100.3 million (US\$12.8 million) for the nine months ended September 30, 2018 compared to net loss of HK\$38.0 million for the same period of 2017. Our adjusted net income, which excludes share-based compensation expenses, reached HK\$1.7 million (US\$0.2 million) in 2017, compared to an adjusted net loss of HK\$89.3 million in 2016. For the nine months ended September 30, 2018, our adjusted net income reached HK\$107.6 million (US\$13.7 million), compared to an adjusted net loss of HK\$30.6 million for the same period of 2017. See “Summary Consolidated Financial and Operating Data—Non-GAAP Measures” for a reconciliation of adjusted net (loss)/income to net (loss)/income.

#### **Our Industry**

With popularization of mobile technology and growing acceptance of online trading, the global online securities market has grown faster than the overall securities market, expanding at a compound annual growth rate, or CAGR, of 23.1% over the past six years, reaching US\$34.8 trillion in 2017. The online securities market is characterized by the following trends:

- traditional brokers are shifting online while purely offline brokers are increasingly at a disadvantage or, in some cases, exiting the market altogether;
- internet giants continue to invest in online brokerage services, demonstrating the industry’s recognition of online brokerage services as an important component of a financial services business and potentially a gateway to broader opportunities;
- technological barriers to entry remain high particularly relating to building a secure infrastructure that can transcend geographies and asset classes;
- operational barriers to entry remain high particularly relating to regulatory and capital requirements;
- user experience remains a key competitive strength as digitally born consumers become a larger component of the addressable market; and
- revenue models are evolving as competition intensifies, with ancillary and other value-added services underlying platform differentiation.

Among global markets, Hong Kong is the world’s fourth largest online securities market, with annual trading volume growing from US\$404.5 billion in 2012 to US\$1.6 trillion in 2017, representing a CAGR of 31.3%, which is expected to reach US\$3.1 trillion in 2022; the United States is the world’s second largest online securities market with annual trading volume growing from US\$5.5 trillion in 2012 to US\$8.6 trillion in 2017, which is expected to reach US\$11.6 trillion in 2022.

China-based investors have contributed to the aforementioned market growth by deploying a significant proportion of their increasing overseas investable assets in online securities trading, especially in Hong Kong and the United States. Financial assets accounted for the largest allocation of overseas investment in 2017, among which stock investment reached US\$0.2 trillion, representing a CAGR of 33.8% from 2012 to 2017. Hong Kong market is particularly favored by China-based investors, because of its geographical and cultural proximity to China as well as the large number of listed Chinese companies.

As a result, China’s overseas online retail securities market represents a unique opportunity, combining the high growth of the global online securities market coupled with expanding overseas asset allocation by China-based investors. In 2017, the trading volume of China’s overseas online retail securities market reached US\$297.5 billion, growing at a CAGR of 90.8% from 2012 to 2017. The market size is expected to reach nearly US\$1.4 trillion in 2022, representing a CAGR of 35.4% from 2017 to 2022.

### **Our Strengths**

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- premier investing experience;
- closed-loop, proprietary technology infrastructure;
- attractive user and client base; and
- significant operating leverage.

### **Our Strategies**

We intend to pursue the following strategies to further expand our business:

- grow and monetize our client base;
- broaden our core service offerings;
- broaden our financial services footprint; and
- invest in our platform.

### **Our Challenges**

Our ability to realize our mission and execute our strategies is subject to risks and uncertainties, including those relating to our ability to:

- manage our future growth;
- navigate a complex and evolving regulatory environment;
- offer personalized and competitive online brokerage and other financial services;
- increase the utilization of our services by existing and new users;
- offer attractive commission fees while driving the growth and profitability of our business;
- continue to retain our profitability as we have become profitable since 2018 after incurring net losses in 2016 and 2017;
- maintain and enhance our relationships with our business partners, including funding partners for our margin financing business;
- enhance our technology infrastructure to support the growth of our business and maintain the security of our system and the confidentiality of the information provided and utilized across our system;
- improve our operational efficiency;
- attract, retain and motivate talented employees to support our business growth;
- navigate economic condition and fluctuation; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or privacy claims.

### **Recent Developments**

The following sets forth our selected unaudited financial data for the two months ended November 30, 2018 and certain operating data for the two months ended or as of November 30, 2018. We have provided the

preliminary results described below for the purpose of providing investors with the most current information that our company is able to provide under the time constraints. The below summary of financial data is not a comprehensive statement of our financial results for the two months ended November 30, 2018 or 2017, and it is possible that normal annual adjustments will be made after our annual year-end financial statements are available.

- *Revenues.* Our revenues for the two months ended November 30, 2018 were HK\$152.3 million (US\$19.5 million), consisting of HK\$80.0 million (US\$10.2 million) of brokerage commission and handling charge income, HK\$67.1 million (US\$8.6 million) of interest income and HK\$5.2 million (US\$0.7 million) of other income, as compared to revenues of HK\$89.9 million, consisting of HK\$48.5 million of brokerage commission and handling charge income, HK\$34.5 million of interest income and HK\$6.9 million of other income, for the two months ended November 30, 2017. The increase was primarily attributable to the increases in our brokerage commission and handling charge income and interest income.
- *Costs.* Our costs for the two months ended November 30, 2018 was HK\$47.5 million (US\$6.1 million), as compared to costs of HK\$26.4 million for the two months ended November 30, 2017 as all components of costs increased in line with our business growth.
- *Gross profit.* Our gross profit for the two months ended November 30, 2018 was HK\$104.8 million (US\$13.4 million), as compared to gross profit of HK\$63.5 million for the two months ended November 30, 2017, primarily attributable to the decrease in brokerage commission and handling charge expenses as a percentage of our total revenues.
- *Research and development expenses.* Our research and development expenses for the two months ended November 30, 2018 were HK\$27.5 million (US\$3.5 million), as compared to research and development expenses of HK\$16.5 million for the two months ended November 30, 2017. The increase was primarily due to an increase in headcount for our research and development function to support our business growth and an increase in average compensation in line with the market trend.
- *Selling and marketing expenses.* Our selling and marketing expenses for the two months ended November 30, 2018 was HK\$15.3 million (US\$2.0 million), as compared to selling and marketing expenses of HK\$7.1 million for the two months ended November 30, 2017. The increase was primarily due to increased user acquisition expenses and increased expenses associated with our branding and marketing activities.
- *General and administrative expenses.* Our general and administrative expenses for the two months ended November 30, 2018 was HK\$16.4 million (US\$2.1 million), as compared to general and administrative expenses of HK\$8.8 million for the two months ended November 30, 2017. The increase was primarily due to an increase in headcount for our general and administrative personnel and an increase in average compensation in line with the market trend.
- *Net income.* We had net income of HK\$31.1 million (US\$4.0 million) for the two months ended November 30, 2018, as compared to net income of HK\$24.3 million for the two months ended November 30, 2017.

As of November 30, 2018, we had an attractive and rapidly growing user base of 5.5 million, registered clients of over 490,000 and paying clients of over 130,000. The trading volume on our platform was HK\$164.6 billion (US\$24.0 billion) for the two months ended November 30, 2018, compared to HK\$126.4 billion for the two months ended November 30, 2017. Our total client asset balance as of November 30, 2018 was HK\$52.5 billion (US\$6.7 billion), an increase from HK\$41.7 billion as of November 30, 2017.

The above selected unaudited financial data for the two months ended November 30, 2018 and certain operating data for the two months ended or as of November 30, 2018 are generally consistent with the trends for

the nine months ended September 30, 2018 as disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our selected unaudited financial data for the two months ended November 30, 2018 and certain operating data for the two months ended or as of November 30, 2018 may not be indicative of our financial results for future interim periods or for the full year ended December 31, 2018. Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus for information regarding trends and other factors that may affect our results of operations.

The table below sets forth a reconciliation of our adjusted net (loss)/income to net (loss)/income for the periods indicated. See “Summary Consolidated Financial and Operating Data—Non-GAAP Measures” for further explanation.

	For the Year ended December 31,			For the Nine Months ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Net (loss)/income	(98,471)	(8,102)	(1,035)	(37,992)	100,338	12,821
Add: share-based compensation expenses	9,155	9,769	1,248	7,402	7,243	926
Adjusted net (loss)/income	<u>(89,316)</u>	<u>1,667</u>	<u>213</u>	<u>(30,590)</u>	<u>107,581</u>	<u>13,747</u>

### Corporate History and Structure

We commenced our operations in December 2007 through Shenzhen Futu Network Technology Co., Ltd., or Shenzhen Futu, a limited liability company established under the laws of the PRC, to provide internet technology and software development services.

Futu Securities International (Hong Kong) Limited, or Futu International Hong Kong, was incorporated under the laws of Hong Kong by Mr. Leaf Hua Li, our founder, chairman and chief executive officer in April 2012. In October 2012, Futu International Hong Kong became a securities dealer registered with the HK SFC by obtaining a Type 1 License for dealing in securities. Futu International Hong Kong obtained a Type 2 License for dealing in future contracts, a Type 4 License for advising on securities, a Type 9 License for asset management and a Type 5 License for advising on future contracts from the HK SFC subsequently in July 2013, June 2015, July 2015, and August 2018, respectively. In October 2014, Mr. Li transferred all of Futu International Hong Kong’s shares to Futu Holdings Limited, or Futu Holdings, our holding company. Futu International Hong Kong established two wholly-owned PRC subsidiaries, Shenzhen Shidai Futu Consulting Limited, or Shenzhen Shidai, and Shenzhen Qianhai Fuzhitu Investment Consulting Management Limited, or Shenzhen Qianhai, in May 2015 and August 2015, respectively. As of the date of this prospectus, we conduct most aspects of our operations through Futu International Hong Kong in Hong Kong.

In April 2014, Futu Holdings was incorporated under the laws of the Cayman Islands as our holding company. In May 2014, Futu Securities (Hong Kong) Limited, or Futu Hong Kong, was incorporated under the laws of in Hong Kong as a wholly-owned subsidiary of Futu Holdings. As of the date of this prospectus, Futu Hong Kong has not engaged in any operating activities. Futu Hong Kong established two wholly-owned PRC subsidiaries, Shensi Network Technology (Beijing) Co., Ltd., or Shensi Beijing, and Futu Network Technology (Shenzhen) Co., Ltd., or Futu Network, in September 2014 and October 2015, respectively, which, together with Shenzhen Shidai and Shenzhen Qianhai, are referred to as our wholly-foreign-owned entities, or PRC WFOEs, in this prospectus.

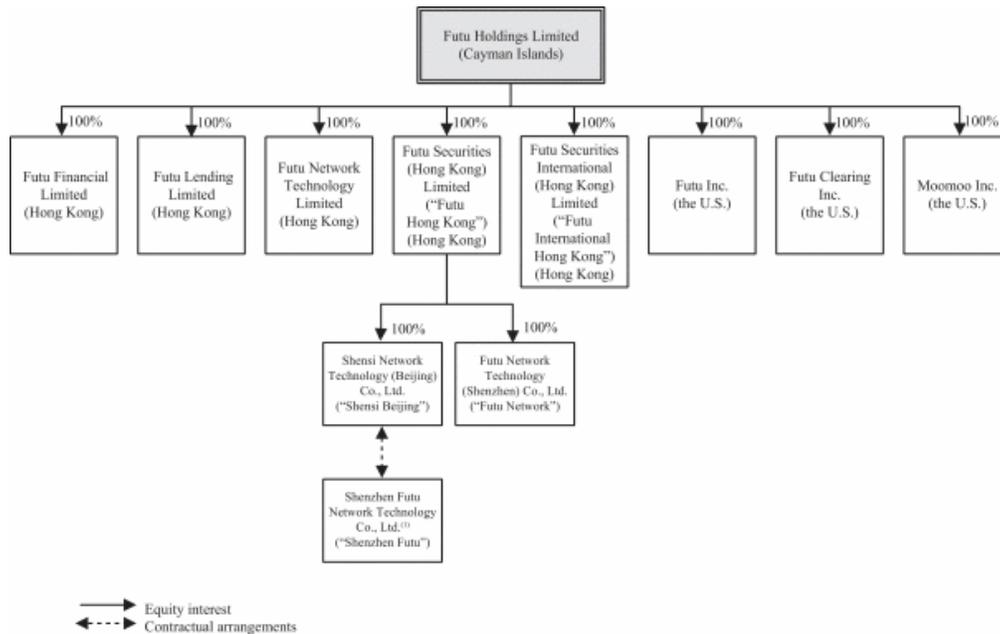
Due to restrictions imposed by PRC laws and regulations on foreign ownership of companies that engage in internet and other related business, Shensi Beijing later entered into a series of contractual arrangements with Shenzhen Futu, which we refer to as our variable interest entity, or VIE, in this prospectus, and its shareholders. For more details, see “Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders.” As a result of our direct ownership in our PRC WFOEs and the variable interest entity contractual arrangements, we are regarded as the primary beneficiary of our VIE. We treated our VIE and its subsidiary as our consolidated affiliated entities under generally accepted accounting principles in the United States, or U.S. GAAP, and have consolidated the financial results of these entities in our consolidated financial statements in accordance with U.S. GAAP.

We operate our business mainly through Futu International Hong Kong, which is a HK SFC-regulated entity that holds the relevant licenses related to our securities brokerage business. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated revenues of HK\$83.2 million, HK\$305.6 million and HK\$576.7 million, accounting for 95.6%, 98.0% and 98.7% of our total revenues, respectively, from Futu International Hong Kong, whose assets amounted to HK\$4,425.8 million, HK\$10,748.7 million and HK\$15,517.2 million, accounting for 98.0%, 98.4%, 97.8% of our total assets as of the end of the same periods, respectively, taking intercompany transaction offset into consideration. We also conduct research and development activities in China through Futu Network and our VIE. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated revenues of HK\$2.5 million, HK\$4.6 million and HK\$1.7 million, accounting for 2.9%, 1.5% and 0.3% of our total revenues, respectively, from Futu Network and our VIE, whose assets amounted to HK\$45.2 million, HK\$73.8 million and HK\$88.1 million, accounting for 1.0%, 0.7% and 0.6% of our total assets as of the end of the same periods, respectively, taking intercompany transaction offset into consideration. As of the date of this prospectus, we have not engaged in any operating activities through our other subsidiaries in China.

We strategically established Futu Financial Limited, Futu Lending Limited and Futu Network Technology Limited, each a wholly-owned subsidiary of our company in Hong Kong, in April 2017, April 2017 and August 2015, respectively, for the purpose of our potential business expansion in the future. As of the date of this prospectus, these subsidiaries have not engaged in any active operating activities. In the past, compared to our total revenues and total assets, the revenues and assets of these subsidiaries were nominal.

In addition, we established Futu Inc., Futu Clearing Inc. and Moomoo Inc., each a wholly-owned subsidiary of our company in the United States, in December 2015, August 2018 and March 2018, respectively, in order to improve our ability to offer investing services in overseas markets. As of the date of this prospectus, these subsidiaries are still at their initial stages of development and have not yet engaged in any business operations. We have not generated any revenue from these subsidiaries and their assets were nominal compared to the total assets of our company.

The following diagram illustrates our corporate structure, including our significant subsidiaries and our VIE, as of the date of this prospectus:



Note:

- (1) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of our company and hold 85% and 15% equity interests, respectively, in Shenzhen Futu. Mr. Li is the founder, chairman and chief executive officer of our company and Ms. Li is Mr. Li's spouse.

#### Implication of Being an Emerging Growth Company and a Foreign Private Issuer

As a company with less than US\$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements compared to those that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards.

We will remain an emerging growth company until the earliest of (a) the last day of the fiscal year during which we have total annual gross revenues of at least US\$1.07 billion; (b) the last day of our fiscal year following the fifth anniversary of the completion of this offering; (c) the date on which we have, during the preceding three-year period, issued more than US\$1.00 billion in non-convertible debt; or (d) the date on which we are deemed to be a “large accelerated filer” under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of the ADSs that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease

to be an emerging growth company, we will not be entitled to the exemptions provided in the JOBS Act discussed above.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers. Moreover, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. In addition, as a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards. See “Risk Factors—Risks Related to the ADSs and This Offering—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.”

#### **Corporate Information**

Our principal executive offices are located at 11/F, Bangkok Bank Building, No. 18 Bonham Strand W, Sheung Wan, Hong Kong S.A.R., People’s Republic of China. Our telephone number at this address is +852 2523-3588. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Investors should submit any inquiries to the address and telephone number of our principal executive offices. Our main website is [www.futuholdings.com](http://www.futuholdings.com). The information contained on our website is not a part of this prospectus. Our agent for service of process in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

#### **Conventions that Apply to this Prospectus**

Unless otherwise indicated or the context otherwise requires, references in this prospectus to:

- “ADSs” are to American depositary shares, each of which represents Class A ordinary shares;
- “availability rate” are to the ratio of the total time a service system is capable of being used during the market hours of the relevant equity markets;
- “average DAUs” in a given period are to the average of the DAUs on each trading day during that period;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this prospectus only, Hong Kong, Macau and Taiwan;
- “churn rate” are to the percentage of the decrease in the same paying client cohort between the beginning and ending of a given period divided by the number of paying clients at the beginning of the same period;
- “Class A ordinary shares” are to our Class A ordinary shares, par value US\$0.00001 per share;
- “Class B ordinary shares” are to our Class B ordinary shares, par value US\$0.00001 per share;
- “DAUs” are measured based on the number of user accounts and visitors who access our *Futu NiuNiu* platform at least once on a given trading day. Some visitors may access our platform using more than one device on a given trading day and we calculate the number of visitors who access our platform based on the number of the devices used by the visitors to access our platform.

---

## [Table of Contents](#)

- “Futu,” “we,” “us,” “our company” and “our” are to Futu Holdings Limited, our Cayman Islands holding company and its subsidiaries, its consolidated affiliated entities;
- “HK\$” and “Hong Kong dollars” are to the legal currency of Hong Kong;
- “HK SFC” are to the Securities and Futures Commission of Hong Kong;
- “MAUs” are measured based on the number of user accounts and visitors who access our *Futu NiuNiu* platform at least once during the calendar month in question. Some visitors may access our platform using more than one device in a given month and we calculate the number of visitors who access our platform based on the number of the devices used by the visitors to access our platform.
- “paying clients” are to the number of the clients with assets in their trading accounts on our platform;
- “registered clients” or “clients” are to the number of users who open one or more trading accounts on our platform;
- “RMB” and “Renminbi” are to the legal currency of China;
- “shares” or “ordinary shares” refers to our ordinary shares, par value US\$0.00001 per share, and upon and after the completion of this offering, are to our Class A and Class B ordinary shares, par value US\$0.00001 per share;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States; and
- “users” are to the number of user accounts registered with our *Futu NiuNiu* applications or websites.

Unless the context indicates otherwise, all share and per share data in this prospectus have given effect to the one to 500 share split effected on September 22, 2016, following which each of our previously issued ordinary shares, Series A preferred shares, Series A-1 preferred shares and Series B preferred shares was subdivided into 500 ordinary shares, Series A preferred shares, Series A-1 preferred shares and Series B preferred shares, respectively. In addition, all information in this prospectus assumes no exercise by the underwriters of their over-allotment option.

<b>THE OFFERING</b>	
Offering price	We currently estimate that the initial public offering price will be between US\$            and US\$            per ADS.
ADSs offered by us	ADSs (or            ADSs if the underwriters exercise their over-allotment option in full).
ADSs outstanding immediately after this offering	ADSs (or            ADSs if the underwriters exercise their over-allotment option in full).
Ordinary shares outstanding immediately after this offering	Class A ordinary shares (or            Class A ordinary shares if the underwriters exercise their option to purchase additional ADSs representing Class A ordinary shares in full) and            Class B ordinary shares.
The ADSs	<p>Each ADS represents            Class A ordinary shares, par value US\$0.00001 per share.</p> <p>The depositary will hold Class A ordinary shares underlying your ADSs. You will have rights as provided in the deposit agreement among us, the depositary and holders and beneficial owners of ADSs from time to time.</p> <p>We do not expect to pay dividends in the foreseeable future. If, however, we declare dividends on our Class A ordinary shares, the depositary will pay you the cash dividends and other distributions it receives on our Class A ordinary shares after deducting its fees and expenses in accordance with the terms set forth in the deposit agreement.</p> <p>You may turn in your ADSs to the depositary in exchange for Class A ordinary shares. The depositary will charge you fees for any exchange.</p> <p>We and the depositary may amend the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended.</p> <p>To better understand the terms of the ADSs, you should carefully read the “Description of American Depositary Shares” section of this prospectus. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.</p>
Over-allotment option	We have granted to the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up to an aggregate of            additional ADSs.

[Table of Contents](#)

Use of proceeds	<p>We expect that we will receive net proceeds of approximately US\$            million (or, US\$            million if the underwriters exercise their over-allotment option in full) from this offering, assuming an initial public offering price of US\$            per ADS, which is the midpoint of the estimated range of the initial public offering price, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>We plan to use the net proceeds of this offering for general corporate purposes, including research and development, working capital needs, and increased regulatory capital requirements of the HK SFC and regulatory authorities in other jurisdictions as a result of our business expansion. See “Use of Proceeds” for more information.</p>
Lock-up	<p>[We, our directors, executive officers, our existing shareholders and certain holders of our share-based awards] have agreed with the underwriters not to sell, transfer or dispose of any ADSs, ordinary shares or similar securities for a period of 180 days after the date of this prospectus. See “Shares Eligible for Future Sales” and “Underwriting.”</p>
Directed ADS Program	<p>At our request, the underwriters have reserved up to 5% of the ADSs being offered by this prospectus for sale at the initial public offering price to certain of our directors, executive officers, employees, business associates and members of their families.</p>
Listing	<p>We intend to apply to have the ADSs listed on the Nasdaq Global Market under the symbol “FHL.” The ADSs and our ordinary shares will not be listed on any other stock exchange or traded on any automated quotation system.</p>
Payment and settlement	<p>The underwriters expect to deliver the ADSs against payment therefor through the facilities of the Depository Trust Company on           , 2019.</p>
Depository	<p>The Bank of New York Mellon.</p>
<p>The number of ordinary shares that will be outstanding immediately after this offering:</p> <ul style="list-style-type: none"><li>• is based on 781,681,094 ordinary shares outstanding as of the date of this prospectus, assuming (i) re-designation or conversion of all outstanding ordinary shares and preferred shares (other than ordinary shares held by Lera Ultimate Limited and Lera Infinity Limited and 140,802,051 preferred shares held by Qiantang River Investment Limited) into 237,129,043 Class A ordinary shares and (ii) re-designation or conversion of all outstanding ordinary shares held by Lera Ultimate Limited and Lera Infinity Limited and 140,802,051 preferred shares held by Qiantang River Investment Limited into 544,552,051 Class B ordinary shares, in each case immediately upon the completion of this offering;</li><li>• assumes no exercise of the underwriters’ option to purchase additional ADSs representing Class A ordinary shares.</li><li>• excludes            Class A ordinary shares issuable upon exercise of our outstanding options as of the date of this prospectus; and</li><li>• excludes            Class A ordinary shares reserved for future issuances under our equity incentive plans.</li></ul>	

**SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following summary consolidated statement of comprehensive loss data for the years ended December 31, 2016 and 2017, summary consolidated balance sheet data as of December 31, 2016 and 2017 and summary consolidated cash flow data for the years ended December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The following summary consolidated statements of comprehensive (loss)/income data for the nine months ended September 30, 2017 and 2018, summary consolidated balance sheet data as of September 30, 2018 and summary consolidated cash flow data for the nine months ended September 30, 2017 and 2018 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this Summary Consolidated Financial and Operating Data section together with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

	For the Year ended December 31,			For the Nine Months Ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
(in thousands, except for share and per share data)						
<b>Summary Consolidated Statements of Comprehensive (Loss)/Income Data :</b>						
<b>Revenues</b>						
Brokerage commission and handling charge income	74,498	184,918	23,629	114,427	294,662	37,652
Interest income	5,795	105,872	13,528	51,998	257,737	32,934
Other income	6,722	20,873	2,667	11,942	31,768	4,059
<b>Total revenues</b>	<b>87,015</b>	<b>311,663</b>	<b>39,824</b>	<b>178,367</b>	<b>584,167</b>	<b>74,645</b>
<b>Costs<sup>(1)</sup></b>						
Brokerage commission and handling charge expenses	(18,730)	(36,777)	(4,699)	(22,554)	(59,614)	(7,618)
Interest expenses	(3,459)	(19,879)	(2,540)	(6,930)	(73,176)	(9,350)
Processing and servicing costs	(22,880)	(52,446)	(6,702)	(39,490)	(52,549)	(6,715)
<b>Total costs</b>	<b>(45,069)</b>	<b>(109,102)</b>	<b>(13,941)</b>	<b>(68,974)</b>	<b>(185,339)</b>	<b>(23,683)</b>
<b>Total gross profit</b>	<b>41,946</b>	<b>202,561</b>	<b>25,883</b>	<b>109,393</b>	<b>398,828</b>	<b>50,962</b>
<b>Operating expenses</b>						
Research and development expenses <sup>(1)</sup>	(61,624)	(95,526)	(12,206)	(69,406)	(105,657)	(13,501)
Selling and marketing expenses <sup>(1)</sup>	(59,198)	(41,446)	(5,296)	(30,243)	(73,671)	(9,414)
General and administrative expenses <sup>(1)</sup>	(31,786)	(57,293)	(7,321)	(42,059)	(73,268)	(9,362)
<b>Total operating expenses</b>	<b>(152,608)</b>	<b>(194,265)</b>	<b>(24,823)</b>	<b>(141,708)</b>	<b>(252,596)</b>	<b>(32,277)</b>
Others, net	(1,085)	(4,918)	(628)	(2,975)	(6,012)	(768)
<b>(Loss)/income before income tax benefit/(expense)</b>	<b>(111,747)</b>	<b>3,378</b>	<b>432</b>	<b>(35,290)</b>	<b>140,220</b>	<b>17,917</b>
Income tax benefit/(expense)	13,276	(11,480)	(1,467)	(2,702)	(39,882)	(5,096)
<b>Net (loss)/income</b>	<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>	<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
Preferred shares redemption value accretion	(17,929)	(47,715)	(6,097)	(31,012)	(50,258)	(6,422)
Income allocation to participating preferred shareholders	—	—	—	—	(24,213)	(3,094)
<b>Net (loss)/income attributable to ordinary shareholder of the Company</b>	<b>(116,400)</b>	<b>(55,817)</b>	<b>(7,132)</b>	<b>(69,004)</b>	<b>25,867</b>	<b>3,305</b>
<b>Net (loss)/income</b>	<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>	<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
<b>Other comprehensive (loss)/income, net of tax</b>						
Foreign currency translation adjustment	(4,142)	3,366	430	6,616	(4,899)	(626)
<b>Total comprehensive (loss)/income</b>	<b>(102,613)</b>	<b>(4,736)</b>	<b>(605)</b>	<b>(31,376)</b>	<b>95,439</b>	<b>12,195</b>



	As of December 31,			Pro Forma December 31, (Unaudited)		As of September 30,		Pro Forma September 30, (Unaudited)	
	2016	2017	2017	2017	2017	2018	2018	2018	2018
	HK\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$
(in thousands)									
<b>Summary Consolidated Balance Sheet Data:</b>									
<b>Assets</b>									
Cash and cash equivalents	179,016	375,263	47,951	375,263	47,951	272,371	34,804	272,371	34,804
Cash held on behalf of clients	3,345,172	7,176,579	917,029	7,176,579	917,029	11,004,151	1,406,120	11,004,151	1,406,120
Available-for-sale financial securities	2,236	—	—	—	—	17,046	2,178	17,046	2,178
Amounts due from related parties	1,006	6,541	836	6,541	836	11,270	1,440	11,270	1,440
Loans and advances	126,163	2,907,967	371,582	2,907,967	371,582	3,800,814	485,671	3,800,814	485,671
Receivables:									
Clients	792,480	218,960	27,979	218,960	27,979	160,967	20,568	160,967	20,568
Brokers	9,918	106,078	13,555	106,078	13,555	486,208	62,128	486,208	62,128
Clearing organization	9,614	55,892	7,142	55,892	7,142	5,600	716	5,600	716
Interest	1,070	7,041	900	7,041	900	32,267	4,124	32,267	4,124
Prepaid assets	4,932	3,646	466	3,646	466	11,496	1,469	11,496	1,469
Other assets	45,876	65,918	8,422	65,918	8,422	64,949	8,300	64,949	8,300
<b>Total assets</b>	<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>
<b>Liabilities</b>									
Amounts due to related parties	6,479	14,687	1,877	14,687	1,877	4,185	535	4,185	535
Payables:									
Clients	4,107,782	7,340,823	938,016	7,340,823	938,016	11,433,670	1,461,004	11,433,670	1,461,004
Brokers	31,446	929,692	118,797	929,692	118,797	1,362,343	174,081	1,362,343	174,081
Clearing organization	10,441	82,878	10,590	82,878	10,590	5,771	737	5,771	737
Interest	2,481	2,066	264	2,066	264	5,510	705	5,510	705
Short-term borrowings	161,179	1,542,448	197,095	1,542,448	197,095	1,907,837	243,785	1,907,837	243,785
Convertible notes	32,030	—	—	—	—	—	—	—	—
Accrued expenses and other liabilities	26,689	60,717	7,758	60,717	7,758	94,566	12,084	94,566	12,084
<b>Total liabilities</b>	<b>4,378,527</b>	<b>9,973,311</b>	<b>1,274,397</b>	<b>9,973,311</b>	<b>1,274,397</b>	<b>14,813,882</b>	<b>1,892,931</b>	<b>14,813,882</b>	<b>1,892,931</b>
<b>Total mezzanine equity</b>	<b>329,175</b>	<b>1,183,475</b>	<b>151,226</b>	<b>—</b>	<b>—</b>	<b>1,233,734</b>	<b>157,648</b>	<b>—</b>	<b>—</b>
<b>Total shareholders' (deficit)/equity</b>	<b>(190,219)</b>	<b>(232,901)</b>	<b>(29,761)</b>	<b>950,574</b>	<b>121,465</b>	<b>(180,477)</b>	<b>(23,061)</b>	<b>1,053,257</b>	<b>134,587</b>
<b>Total liabilities, mezzanine equity and shareholders' (deficit)/equity</b>	<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>

[Table of Contents](#)

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2016	2017	US\$	2017	2018	US\$
	HK\$	HK\$		HK\$	HK\$	
(in thousands)						
<b>Summary Consolidated Cash Flow Data:</b>						
Net cash generated from operating activities	1,397,692	1,855,328	237,075	1,520,504	3,395,805	433,920
Net cash used in investing activities	(6,230)	(5,145)	(657)	(4,440)	(30,716)	(3,925)
Net cash generated from financing activities	147,594	2,155,846	275,476	1,116,206	360,941	46,121
Effect of exchange rate changes on cash, cash equivalents and restricted cash	77	21,625	2,763	18,067	(1,350)	(173)
Net increase in cash, cash equivalents and restricted cash	1,539,133	4,027,654	514,657	2,650,337	3,724,680	475,943
Cash, cash equivalents and restricted cash at beginning of the year	1,985,055	3,524,188	450,323	3,524,188	7,551,842	964,981
Cash, cash equivalents and restricted cash at end of the year	<u>3,524,188</u>	<u>7,551,842</u>	<u>964,980</u>	<u>6,174,525</u>	<u>11,276,522</u>	<u>1,440,924</u>
<b>Summary Operating Data:</b>						
	As of December 31,		As of September 30,			
	2016	2017	2017	2018		
Users <sup>(1)</sup>	3,191,349	3,902,565	3,658,218	5,309,255		
Registered clients	148,320	286,502	221,297	457,323		
Paying clients	35,456	80,057	62,899	124,809		
	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2016	2017	US\$	2017	2018	US\$
	HK\$	HK\$		HK\$	HK\$	
(in billion)						
Trading volume	195.9	517.9	66.2	337.0	678.0	86.6
	As of December 31,		As of September 30,			
	2016	2017	2017	2018		
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
(in billion)						
Client assets	15.5	44.4	5.7	34.1	54.2	6.9
Note:						
(1) Among these users, 1,305,131, 719,812, 519,711 and 1,068,247 had at least one activity on our platform in the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2017 and 2018, respectively. A user is deemed to have an activity on our platform if the user has accessed and logged into our <i>Futu NiuNiu</i> applications or websites at least once in a given period.						
<b>Non-GAAP Measures</b>						
We use adjusted net income, a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes. Adjusted net income represents net income excluding share-based compensation expenses, and such adjustment has no impacts on income tax.						

[Table of Contents](#)

We believe that adjusted net income helps identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net income. We believe that adjusted net income provides useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

Adjusted net income should not be considered in isolation or construed as an alternative to net income or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted net income presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of our adjusted net (loss)/income to net (loss)/income for the periods indicated.

	For the Year ended December 31,			For the Nine Months ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Net (loss)/income	(98,471)	(8,102)	(1,035)	(37,992)	100,338	12,821
Add: share-based compensation expenses	9,155	9,769	1,248	7,402	7,243	926
Adjusted net (loss)/income	<u>(89,316)</u>	<u>1,667</u>	<u>213</u>	<u>(30,590)</u>	<u>107,581</u>	<u>13,747</u>

## RISK FACTORS

### Risks Related to Our Business and Industry

#### *We have a limited operating history which makes it difficult to evaluate our future prospects.*

We launched our online brokerage business in 2012 and experienced significant growth since 2015. Between 2012 and 2015, we focused on continuously improving our platform and technology infrastructure. As our business is built on cutting-edge technology and a majority of our staff come from internet and technology companies, which differentiate us from traditional brokers, we have limited experience in most aspects of our business operation, such as trading, margin financing and securities lending. In addition, we have limited experience in serving our current user and client base. As our business develops and as we respond to competition, we may continue to introduce new service offerings, make adjustments to our existing services, or make adjustments to our business operation in general. Any significant change to our business model that does not achieve expected results may have a material and adverse impact on our financial condition and results of operations. It is therefore difficult to effectively assess our future prospects.

The online brokerage industry may not develop as expected. Prospective users and clients of our services may not be familiar with the development of online brokerage markets and may have difficulty distinguishing our services from those of our competitors. Convincing prospective users and clients of the value of using our services is critical to increasing the amount of transactions on our platform and to the success of our business.

You should consider our business and prospects in light of the risks and challenges we encounter or may encounter given the rapidly evolving market in which we operate and our limited operating history. These risks and challenges include our ability to, among other things:

- manage our future growth;
- navigate a complex and evolving regulatory environment;
- offer personalized and competitive online brokerage and other financial services;
- increase the utilization of our services by existing and new users;
- offer attractive commission fees while driving the growth and profitability of our business;
- maintain and enhance our relationships with our business partners, including funding partners for our margin financing business;
- enhance our technology infrastructure to support the growth of our business and maintain the security of our system and the confidentiality of the information provided and utilized across our system;
- improve our operational efficiency;
- attract, retain and motivate talented employees to support our business growth;
- navigate economic condition and fluctuation; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or privacy claims.

#### *Our historical growth rates may not be indicative of our future growth.*

We have experienced rapid growth in our business and operations since our inception. The trading volume on our platform grew 164.4% from HK\$195.9 billion in 2016 to HK\$517.9 billion (US\$66.2 billion) in 2017 and 101.2% from HK\$337.0 billion for the nine months ended September 30, 2017 to HK\$678.0 billion (US\$86.6 billion) for the same period of 2018. Our total revenues increased by 258.3% from HK\$87.0 million in 2016 to HK\$311.7 million (US\$39.8 million) in 2017, and by 227.5% from HK\$178.4 million for the nine months ended

---

## [Table of Contents](#)

September 30, 2017 to HK\$584.2 million (US\$74.6 million) for the same period of 2018. However, our historical growth rates may not be indicative of our future growth, and we may not be able to generate similar growth rates in future periods. We cannot assure you that we will grow at the same rate as we have in the past. If our growth rate declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of the ADSs could decline. You should consider our prospects in light of the risks and uncertainties that fast-growing companies with limited operating histories in a quickly-evolving industry may encounter.

We may not be able to manage our expansion effectively. Continuous expansion may increase the complexity of our business and place a strain on our management, operations, technical systems, financial resources and internal control functions. Our current and planned personnel, systems, resources and controls may not be adequate to support and effectively manage our future operations. We upgrade our systems from time to time to cater to the need of launching new services and executing increasing trading volume, and the process of upgrading our current systems may disrupt our ability to timely and accurately process information, which could adversely affect our results of operations and cause harm to our business.

Our entrepreneurial and collaborative culture is important to us, and we believe it has been a major contributor to our success. We may have difficulties maintaining our culture to meet the needs of our future and evolving operations as we continue to grow, in particular as we grow internationally. In addition, our ability to maintain our culture as a public company, with changes in policies, practices, corporate governance and management requirements, may be challenging. Failure to maintain our culture could have a material adverse effect on our business.

***We are subject to extensive and evolving regulatory requirements in Hong Kong, non-compliance with which, may result in penalties, limitations and prohibitions on our future business activities or suspension or revocation of our licenses and trading rights, and consequently may materially and adversely affect our business, financial condition, operations and prospects. In addition, we are involved in ongoing inquiries and investigations by the HK SFC.***

The markets in Hong Kong in which we operate are highly regulated. However, the online-based brokerage service industry (including, for example, the use of cloud-based operating, computing and record keeping technology as well as biometric identification technology) is at a relatively early stage of development, and applicable laws, regulations and other requirements may be changed and adopted from time to time. Our business operations are subject to applicable Hong Kong laws, regulations, guidelines, circulars, and other regulatory guidance, or collectively the "HK Brokerage Service Rules," including, for example, the SFO and its subsidiary legislation. These HK Brokerage Service Rules set out the licensing requirements, regulate our operational activities and standards, and impose requirements such as maintaining minimum liquidity or capital along with other filing, record keeping and reporting obligations relevant to our business operations. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong." Failure to comply with applicable HK Brokerage Service Rules can result in investigations and regulatory actions, which may lead to penalties, including reprimands, fines, limitations or prohibitions on our future business activities or suspension or revocation of our licenses or trading rights. Any outcome may affect our ability to conduct business, harm our reputation and, consequently, materially and adversely affect our business, financial condition, results of operations and prospects.

From time to time, Futu International Hong Kong as a HK SFC-licensed corporation may be subject to or required to assist in inquiries or investigations by relevant regulatory authorities in Hong Kong, principally the HK SFC. The HK SFC conducts on-site reviews and off-site monitoring to ascertain and supervise our business conduct and compliance with relevant regulatory requirements and to assess and monitor, among other things, our financial soundness. We may be subject to such regulatory inquiries and investigations from time to time. If any misconduct is identified as a result of inquiries, reviews or investigations, the HK SFC may take disciplinary actions which would lead to revocation or suspension of licenses, public or private reprimand or imposition of pecuniary penalties against us, our responsible officers, licensed representatives, directors or other officers. Any such disciplinary actions taken against us, our responsible officers, licensed representatives, directors or other officers may have a material and adverse impact on our business operations and financial results. In addition, we

---

## [Table of Contents](#)

are subject to statutory secrecy obligations under the SFO whereby we may not be permitted to disclose details on any HK SFC inquiries, reviews or investigations without the consent of the HK SFC.

As of the date of this prospectus, Futu International Hong Kong is subject to ongoing investigations by the HK SFC relating to anti-money laundering laws, practices relating to protection of client assets, and handling and monitoring client orders and trading activities. In addition, Futu International Hong Kong is involved in ongoing regulatory inquiries by the HK SFC relating to client onboarding processes. We are unable to accurately predict the outcome of the inquiries and investigations because of their ongoing nature. See “Business—Ongoing Regulatory Actions.” There remains a risk that on conclusion of the inquiries and investigations, the HK SFC may identify misconduct or material non-compliance and decide to take regulatory actions, which may include, among other things, reprimands, fines, limitations or prohibitions on our future business activities or suspension or revocation of Futu International Hong Kong’s licenses and trading rights. There also remains a risk that we may not be able to rectify our practices to be in compliance with relevant HK Brokerage Service Rules following the identification of any such misconduct or material non-compliance, which may result in the HK SFC taking additional regulatory actions against us in the forms described above. If any such outcome were to arise, there may be a material and adverse effect on our business, results of operations, financial conditions and prospects. Our reputation may also be harmed.

***Our client online account opening procedures do not strictly follow the specified steps set out by the relevant authorities in Hong Kong.***

As online-based brokerage services in Hong Kong and China and, in particular, the technologies and practices involved in online account opening services are at relatively early stages of development, applicable laws, regulations, guidelines, circulars and other regulatory guidance with regard to online account opening procedures remain evolving and are subject to further changes. Residents in China can open Hong Kong or U.S. trading accounts with us by following the online application procedures summarized in the prospectus. See “Business Section—Our Services—Trading, Clearing and Settlement—Account Opening.” Our system supports the online verification procedures, among others, based on a prospective client’s PRC identification information and debit card issued by a bank based in China. The HK SFC’s current position on the expressly specified non-face-to-face approaches for account opening, including online account opening, in light of HK SFC regulatory requirements is summarized in paragraph 5.1 of the SFC Code of Conduct and SFC circulars dated May 12, 2015, October 24, 2016 and July 12, 2018 (together, the “SFC Circulars”). There are various methods set out under the SFC Circulars for online account opening, one of which is to use e-certification services provided by certification authorities outside Hong Kong whose electronic signature certificates have obtained mutual recognition status accepted by the Hong Kong government when onboarding clients. Our online application procedures for residents in China as discussed above do not strictly follow the specified methods set out in the SFC Circulars. For example, we do not require e-certification for all clients as part of the client onboarding process. In late November 2018, we began to test and implement an e-certification procedure as part of the online onboarding process for a limited number of new applicants. There is no assurance that we will be able to achieve full implementation timely, or at all. If our online account opening procedures are deemed to be not in compliance with the applicable laws, regulations, guidelines, circulars and other regulatory guidance, we may be subject to regulatory actions, which may include, among other things, reprimands, fines, remediation, limitations or prohibitions on our future business activities and/or suspension or revocation of Futu International Hong Kong’s licenses and trading rights. Moreover, if we were required to remediate our account opening procedures for existing clients or to make further adjustments to our online client onboarding process, the remediation or adjustments may have a material adverse impact on our operations, business prospects, user experience and client acquisition and retention.

***We do not hold any license or permit for providing securities brokerage business in China. Although we do not believe we engage in securities brokerage business in China, there remain uncertainties to the interpretation and implementation of relevant PRC laws and regulations.***

Pursuant to the relevant PRC laws and regulations, no entity or individual shall engage in securities business without the approval of the securities regulatory authority of the State Council. See “Regulations—Overview of

---

## [Table of Contents](#)

the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Securities Business.” We do not hold any license or permit in relation to providing securities brokerage business in China, and we do not believe the business we are conducting now through our subsidiaries or consolidated affiliated entities in China is a securities brokerage business in China. In the past, we received inquiries relating to our business from certain regulatory authorities in China. We have since then taken measures to modify and enhance our business and platform to be in compliance with the applicable PRC laws and regulations related to securities brokerage business in China. Based on the opinion of our PRC counsel, CM Law Firm, we are in compliance with the applicable PRC laws and regulations related to securities brokerage business in China after such modifications in all material aspects. However, there remain some uncertainties as to how the current and any future PRC laws and regulations will be interpreted or implemented in the context of operating securities related business in China. We cannot assure you that our current operation model, such as redirecting users and clients to open accounts and make transactions outside China, will not be deemed as operating securities brokerage business in China, which may subject us to further inquiries or rectifications. If we are deemed to be operating a securities brokerage business in China, we will be required to obtain relevant licenses or permits from relevant regulatory bodies, including the CSRC, and failure of obtaining such licenses or permits may subject us to regulatory actions and penalties, including fines, suspension of parts or all of our operations in the PRC, and temporary suspension or removal of our websites and mobile application in China. In such cases, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***PRC governmental control of currency conversion, cross-border remittance and offshore investment could have a direct impact on the trading volume achieved on our platform. If the government further tightens restrictions on converting Renminbi to foreign currencies, including Hong Kong dollars and U.S. dollars, and/or deems our practice as in violation of PRC laws and regulations, our business will be materially and adversely affected.***

Since we launched our online brokerage business, the majority of our clients are Chinese nationals. We do not convert Renminbi into Hong Kong dollars or U.S. dollars for our clients, and require those who would like to trade securities listed on the Hong Kong Stock Exchange or any major stock exchanges in the United States through our platform to deposit funding into their respective trading accounts in Hong Kong in either Hong Kong dollars or U.S. dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, currency remittance out of the PRC. Since 2016, the PRC government has tightened its foreign exchange policies and stepped up its scrutiny of outbound capital movement. Under the current regulatory framework, Chinese nationals are limited to a foreign exchange quota of US\$50,000 per year for approved uses only, such as tourism and education purposes and Chinese nationals can only engage in offshore investments under capital items through provided method such as Qualified Domestic Institutional Investors. See “Regulations—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Offshore Stocks Investment.” If the government further tightens the amount of currency exchange allowed for Chinese nationals, increases the control over remittance of currency out of the PRC, and/or specifically prohibits any exchanges for securities-related investment, the trading activities of Chinese nationals on our platform could be restricted, which would significantly reduce the trading volume on our platform. As our revenues from brokerage commission income depends heavily on the total trading volume facilitated on our platform, the occurrence of any of the above regulatory changes would have a material and adverse impact on our business, operating and financial results.

In addition, under the existing regulations on offshore investment, approval from or registration with appropriate government authorities is required when Renminbi is to be converted into foreign currency for the purpose of offshore investment. As we do not provide currency conversion services related to Renminbi to our Chinese national clients, we do not require our clients to submit evidence of approval or registration from relevant authorities with respect to the foreign currency used for offshore investments. However, there remain uncertainties regarding the interpretation and application of the current laws and regulations with respect to offshore investment and if we are required by any laws or regulation to verify evidence of approval from relevant authorities, we may be deemed as in violation of such PRC laws and regulations. In such cases, we may face regulatory warnings, correction orders, condemnation and fines, and may not be able to conduct our current

---

## [Table of Contents](#)

business in the future. We may also be subject to regular inspections from relevant authorities from time to time. If such situations occur, our business, financial condition, results of operations and prospects would be materially and adversely affected.

***We face significant competition in the online brokerage industry, and if we are unable to compete effectively, we may lose our market share and our results of operations and financial condition may be materially and adversely affected.***

The market for online brokerage services is relatively new, rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. We face competition from traditional retail brokerage firms and financial service providers in Hong Kong who, in an effort to satisfy the demands of their clients for hands-on electronic trading facilities, universal access to markets, smart routing, better trading tools, lower commissions and financing rates, have embarked upon building such facilities and service enhancements.

In addition, the online brokerage industry exhibits massive opportunities which may attract major internet companies to enter the market by adopting a similar business model, which may significantly affect our market share and sales volume. The release of version 1.1 of the certificate policy for mutual recognition of electronic signature certificates on September 30, 2018 may further intensify such competition. Major international brokerage companies that have large retail online brokerage businesses as well as online brokerage units of commercial banks may take advantage of their established resources and satisfy applicable regulatory requirements through acquisitions and organic development.

We expect competition to increase in the future as current competitors diversify and improve their offerings and as new participants enter the market. We cannot assure you that we will be able to compete effectively or efficiently with current or future competitors. They may be acquired by, receive investment from or enter into strategic relationships with, established and well-financed companies or investors, which would help enhance their competitiveness. Furthermore, the current competitors and new entrants in the online brokerage industry may also seek to develop new service offerings, technologies or capabilities that could render some of the services that we offer obsolete or less competitive, and some of them may adopt more aggressive pricing policies or devote greater resources to marketing and promotional campaigns than we do. The occurrence of any of these circumstances may hinder our growth and reduce our market share, and thus our business, results of operations, financial condition and prospects would be materially and adversely affected.

***If we are unable to retain existing clients or attract new clients to increase their trading volume, or if we fail to offer services to address the needs of our clients as they evolve, our business and results of operations may be materially and adversely affected.***

We derive a significant portion of our revenues from our online brokerage services provided to our clients. The trading volume on our platform has grown rapidly over the past few years. In 2017, we facilitated trading transactions at the amount of HK\$517.9 billion (US\$66.2 billion) in aggregate, representing a 164.4% increase in trading volume from 2016. For the nine months ended September 30, 2018, we facilitated trading transactions at the amount of HK\$678.0 billion (US\$86.6 billion) in aggregate, representing a 101.2% increase in trading volume from the same period in 2017. Also, as of December 31, 2017, the number of our paying clients grew 125.8% as compared to the number as of December 31, 2016, and grew 98.4% as of September 30, 2018 as compared to the number as of September 30, 2017. To maintain the high growth momentum of our platform, we depend on retaining current clients and attracting more new clients. If there is insufficient demand for our online brokerage and margin financing services, we might not be able to maintain and increase our trading volume and revenues as we expect, and our business and results of operations may be adversely affected.

Our success depends largely on our ability to retain existing clients, in particular those that have highly frequent transactions. Our clients may not continue to place trading orders or increase the level of their trading activities on our platform if we cannot match the prices offered by other market players or if we fail to deliver satisfactory services. Failure to deliver services in a timely manner at competitive prices with satisfactory experience will cause our clients to lose confidence in us and use our platform less frequently or even stop using our platform altogether, which in turn will materially and adversely affect our business. Even if we are able to provide high-quality and satisfactory services on our platform in a timely manner and at favorable price terms,

---

## [Table of Contents](#)

we cannot assure you that we will be able to retain existing clients, encourage repeat and increase trading transactions due to reasons out of our control, such as our clients' personal financial reasons or the deterioration of the capital markets condition.

We must stay abreast of the needs and preferences of our clients to serve their evolving trading needs as their investment demands change. If we fail to retain our existing clients by offering services that cater to their evolving investment and trading needs, we may not be able to maintain and continue to grow the trading volume on our platform, and our business and results of operations may be adversely affected. In addition, if we are unable to maintain, enhance or develop the methods we use to retain clients, the costs of client retention will significantly increase, and our ability to retain clients may be harmed.

***Because our revenues and profitability depend largely on clients' trading volume, they are prone to significant fluctuations and are difficult to predict.***

Our revenues and profitability depend in part on the level of trading activity of the securities of our clients, which are often affected by factors beyond our control, including economic and political conditions, broad trends in business and finance and changes in the markets in which such transactions occur. Weaknesses in the markets in which we operate, including economic slowdowns, have historically resulted in reduced trading volumes for us. Declines in trading volumes generally result in lower revenues from transaction execution activities. Lower levels of volatility generally have the same directional impact. Declines in market values of securities or other financial instruments can also result in illiquid markets, which can also result in lower revenues and profitability from transaction execution activities. Lower price levels of securities and other financial instruments, as well as compressed bid/ask spreads, which often follow lower pricing, can further result in reduced revenues and profitability. These factors can also increase the potential for losses on securities or other financial instruments held in inventory and failures of buyers and sellers to fulfill their obligations and settle their trades, as well as claims and litigation. Any of the foregoing factors could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business is also subject to general economic and political conditions in Hong Kong, the PRC and abroad, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term funding sources, cost of funding and the level and volatility of interest rates. For example, a drop in the capital markets performance as a result of the ongoing trade disputes between China and the United States could negatively impact our revenues and profitability. As a result of these risks, our income and operating results may be subject to significant fluctuations.

***Our current level of commission and fee rates may decline in the future. Any material reduction in our commission or fee rates could reduce our profitability.***

We derive a significant portion of our revenues from commissions and fees paid by our clients for trading securities through our platform. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, our brokerage commission income and handling charge income amounted to HK\$74.5 million, HK\$184.9 million (US\$23.6 million) and HK\$294.7 million (US\$37.7 million), representing 85.6%, 59.3% and 50.4% of our total revenues during the same periods, respectively. We may experience pressure on our commission or fee rates as a result of competition we face in the online brokerage service industry. Some of our competitors offer a broader range of services to a larger client base, and enjoy higher trading volumes, than we do. Consequently, our competitors may be able and willing to offer trading services at lower commission or fee rates than we currently offer or may be able to offer. For example, some banks in Hong Kong and the United States have started to offer zero commission fees or similar policies to attract securities investors. As a result of this pricing competition, we could lose both market share and revenues. We believe that any downward pressure on commission or fee rates would likely continue and intensify as we continue to develop our business and gain recognition in our markets. A decline in our commission or fee rates could lower

---

## [Table of Contents](#)

our revenues, which would adversely affect our profitability. In addition, our competitors may offer other financial incentives such as rebates or discounts in order to induce trading in their systems rather than in ours. If our commission or fee rate decreases significantly, our operating and financial results may be materially and adversely affected.

### ***Fluctuations in market interest rates may negatively affect our financial condition and results of operations.***

We derive a part of our revenues from charging interests on margin balances in connection with our margin financing and security lending businesses. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, our revenues from interest income derived from our margin financing and securities lending businesses amounted to HK\$1.8 million, HK\$65.5 million (US\$8.4 million) and HK\$175.9 million (US\$22.5 million), representing 2.0%, 21.0% and 30.1% of our total revenues during the same periods, respectively. For the same periods, our interest income derived from bank deposits were HK\$4.0 million, HK\$34.1 million (US\$4.4 million) and HK\$74.2 million (US\$9.5 million), representing 4.6%, 10.9% and 12.7% of our total revenues during the same years, respectively. The trend of the level of interest rates is an important factor affecting our earnings. A decline in interest rates may have a negative impact on our interest income and thus ultimately adversely impact our total revenues. While we generally derive higher interest income when there is an increase in market interest rates, a rise in interest rates may also cause our interest expenses to increase. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

Although our management believes that it has implemented effective management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet. For further discussion of how changes in interest rates could impact us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” of this prospectus.

### ***We may not be able to develop our margin financing and securities lending business as expected and may be exposed to credit risks related to these businesses. In addition, we need adequate funding at reasonable costs to successfully operate our margin financing business, and access to adequate funding at reasonable costs cannot be assured.***

Our margin financing and securities lending businesses may not develop as expected if clients fail to perform contractual obligations or the value of collateral held to secure the obligations is inadequate. We have adopted comprehensive internal policies and procedures designed to manage such risks. For example, once the margin value falls below the outstanding amount of the relevant loan extended as a result of a market downturn or adverse movement in the prices of the pledged securities, we will make a margin call requesting the client to deposit additional funds, sell securities or pledge additional securities to top up their margin value. If the client’s margin value still falls below the required standard, we will initiate our liquidation protection mechanism on a real-time basis to bring the client’s account into margin compliance. Nevertheless, we cannot assure you that we will not be exposed to any credit risks associated with our margin financing and securities lending businesses. See “—Our risk management policies and procedures may not be fully effective in identifying or mitigating risk exposure in all market environments or against all types of risks.”

Moreover, the growth and success of our margin financing business depend on the availability of adequate funding to meet our client demand for loans on our platform. We derive the funding for our margin financing business from a variety of sources, including funding secured from commercial banks, other licensed financial institutions and other parties, prior to this offering as well as financing generated from our business operations. To the extent there is insufficient funding from institutional funding partners who are willing to accept the credit risk related to the collateral from our clients, the funds available for our margin financing business might be

---

## [Table of Contents](#)

limited and our ability to provide margin financing services to our clients to address their demand for loans would be adversely impacted. In addition, as we strive to offer our clients competitively priced services and the online brokerage market is intensely competitive, we may attempt to further reduce our interest expenses from our funding partners. If we cannot continue to maintain our relationship with these funding partners and obtain adequate funding at reasonable costs, we may not be able to continue to offer or grow our margin financing business. To the extent that our funding sources find the risk-adjusted returns with us less attractive, we may not be able to obtain the requisite level of funding at reasonable costs, or at all. If our platform is unable to provide our clients with margin loans or fund the loans on a timely basis due to insufficient funding or less favorable pricing compared to those of our competitors, it would harm our business, financial condition and results of operations.

***If we fail to respond in a timely and cost-effective manner to the needs of our users and clients or if our new service offerings do not achieve sufficient market acceptance, our business and results of operations may be materially and adversely affected.***

Our future success will depend in part on our ability to develop and introduce new service offerings to respond to the evolving needs of our users and clients in a timely and cost-effective manner. We provide services in markets that are characterized by rapid technological change, evolving industry standards, frequent new service introductions, and increasing demand for higher levels of client experience. In recent years, we have expanded our service offerings for our users and clients from online brokerage services to margin financing services and further to other ancillary tools and functions and may continue to expand our new service offerings in the future. However, we have limited experience in new service offerings, and expansion into new service offerings may involve new risks and challenges that we may not have experienced before. We cannot assure you that we will be able to overcome such new risks and challenges and make our new service offerings successful.

Our ability to anticipate and identify the evolving needs of our users and clients and to develop and introduce new service offerings to address such needs will be a significant factor in maintaining or improving our competitive position and prospects for growth. We may also have to incur substantial unanticipated costs to maintain and further strengthen such ability. Our success will also depend on our ability to develop and introduce new services and enhance existing services for our users and clients in a timely manner. Even if we introduce new and enhanced services to the market, they may not achieve market acceptance.

We believe that we must continue to make investments to support ongoing research and development in order to develop new or enhanced service offerings to remain competitive. We need to continue to develop and introduce new services that incorporate the latest technological advancements in response to evolving user and client needs. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or the changing needs of our users and clients. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

***We depend on our proprietary technology, and our future results may be impacted if we cannot maintain technological superiority in our industry.***

Our success in the past has largely been attributable to our sophisticated proprietary technology that has empowered the efficient operations of our platform. We have benefited from the fact that the type of proprietary technology equivalent to which we employ has not been widely available to our competitors. If our technology becomes more widely available to our current or future competitors for any reason, our operating results may be adversely affected.

Additionally, to keep pace with changing technologies and client demands, we must correctly interpret and address market trends and enhance the features and functionality of our technology in response to these trends, which may lead to significant research and development costs. We may be unable to accurately determine the needs of our users and clients or the trends in the online brokerage industry or to design and implement the

---

## [Table of Contents](#)

appropriate features and functionality of our technology in a timely and cost-effective manner, which could result in decreased demand for our services and a corresponding decrease in our revenue. Also, any adoption or development of similar or more advanced technologies by our competitors may require that we devote substantial resources to the development of more advanced technology to remain competitive. The markets in which we compete are characterized by rapidly changing technology, evolving industry standards and changing trading systems, practices and techniques. Although we have been at the forefront of many of these developments in the past, we may not be able to keep up with these rapid changes in the future, develop new technology, realize a return on amounts invested in developing new technologies or remain competitive in the future.

In addition, we must protect our systems against physical damage from fire, earthquakes, power loss, telecommunications failures, computer viruses, hacker attacks, physical break-ins and similar events. Any software or hardware damage or failure that causes interruption or an increase in response time of our proprietary technology could reduce client satisfaction and decrease usage of our services.

### ***Unexpected network interruptions, security breaches or computer virus attacks and system failures could have a material adverse effect on our business, financial condition and results of operations.***

Our internet-based business depends on the performance and reliability of the internet infrastructure. We cannot assure you that the internet infrastructure we depend on will remain sufficiently reliable for our needs. Any failure to maintain the performance, reliability, security or availability of our network infrastructure may cause significant damage to our ability to attract and retain users and clients. Major risks involving our network infrastructure include:

- breakdowns or system failures resulting in a prolonged shutdown of our servers;
- disruption or failure in the national backbone networks in China, which would make it impossible for users and clients to access our online and mobile platforms;
- damage from natural disasters or other catastrophic events such as typhoon, volcanic eruption, earthquake, flood, telecommunications failure, or other similar events; and
- any infection by or spread of computer viruses or other system failures.

Any network interruption or inadequacy that causes interruptions in the availability of our online and mobile platforms or deterioration in the quality of access to our online and mobile platforms could reduce user and client satisfaction and result in a reduction in the activity level of our users and clients as well as the number of clients making trading transactions on our platform. Furthermore, increases in the volume of traffic on our online and mobile platforms could strain the capacity of our existing computer systems and bandwidth, which could lead to slower response times or system failures. The internet infrastructure we depend on may not support the demands associated with continued growth in internet usage. This could cause a disruption or suspension in our service delivery, which could hurt our brand and reputation. We may need to incur additional costs to upgrade our technology infrastructure and computer systems in order to accommodate increased demand if we anticipate that our systems cannot handle higher volumes of traffic and transaction in the future.

### ***Failure or poor performance of third-party software, infrastructure or systems on which we rely could adversely affect our business.***

We rely on third parties to provide and maintain certain infrastructure that is critical to our business. For example, a strategic partner provides services to us in connection with various aspects of our operations and systems. If such services become limited, restricted, curtailed or less effective or more expensive in any way or become unavailable to us for any reason, our business may be materially and adversely affected. The infrastructure of our third-party service providers may malfunction or fail due to events out of our control, which could disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and cash flows. Any failure to maintain and renew our relationships with these third parties on

---

## [Table of Contents](#)

commercially favorable terms, or to enter into similar relationships in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We also rely on certain third-party software, third-party computer systems and service providers, including clearing systems, exchange systems, alternate trading systems, order-routing systems, internet service providers, communications facilities and other facilities. Any interruption in these third-party services or software, deterioration in their performance, or other improper operation could interfere with our trading activities, cause losses due to erroneous or delayed responses, or otherwise be disruptive to our business. If our arrangements with any third party are terminated, we may not be able to find an alternative source of software or systems support on a timely basis or on commercially reasonable terms. This could also have a material adverse effect on our business, financial condition, results of operations and cash flows.

***If major mobile application distribution channels change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.***

We currently rely on Apple's app store, Google's Play Store and major PRC-based Android app stores to distribute our *Futu NiuNiu* mobile application to users. As such, the promotion, distribution and operation of our application are subject to such distribution platforms' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. If these third-party distribution platforms change their terms and conditions in a manner that is detrimental to us, or refuse to distribute our application, or if any other major distribution channel with which we would like to seek collaboration refuses to collaborate with us in the future, our business, financial condition and results of operations may be materially and adversely affected.

***If we fail to protect the confidential information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-ins or other reasons, we may be subject to liabilities imposed by relevant laws and regulations, and our reputation and business may be materially and adversely affected.***

We collect, store and process certain personal and other sensitive data from our users and clients, which makes us a potentially vulnerable target to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. Because the techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may not be able to anticipate these techniques or implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential user and client information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. We have not experienced any material cyber-security breaches or been subject to any material breaches of any of our cyber-security measures in the past. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users and clients could be severely damaged, we could incur significant liability and our business and operations could be adversely affected.

We are subject to governmental regulation and other legal obligations related to the protection of personal data, privacy and information security in the regions where we do business, and there has been and may continue to be a significant increase in such laws that restrict or control the use of personal data. See "Regulations—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Cybersecurity and Privacy." In China, the Cyber Security Law became effective in June 2017 and requires network operators to follow the principles of legitimacy in collecting and using personal information. In addition, the Personal Information Security Specification, or China Specification, came into force on May 1, 2018. Although the China Specification is not a mandatory regulation, it nonetheless has a key implementing role in

---

## [Table of Contents](#)

relation to China's Cyber Security Law in respect to protecting personal information in China. Furthermore, it is likely that the China Specification will be relied on by Chinese government agencies as a standard to determine whether businesses have abided by China's data protection rules. Furthermore, under the China Specification, the data controller must provide the purpose of collecting and using subject personal information, as well as the business functions of such purpose, and the China Specification requires the data controller to distinguish its core function from additional functions to ensure the data controller will only collect personal information as needed. Similarly, Hong Kong also has its data privacy legislation that regulates the collection, use and handling of personal data. Under the relevant legislation, data users are required to comply with various data protection principles in relation to the requirement of lawful and fair collection of personal data, consent of data subjects, retention of personal data, use and disclosure of personal data, security of personal data, personal data policies and practices, and rights to access and correction of personal data.

There are uncertainties as to the interpretation and application of laws in one jurisdiction which may be interpreted and applied in a manner inconsistent to another jurisdiction and may conflict with our current policies and practices or require changes to the features of our system. We cannot assure that our existing user information protection system and technical measures will be considered sufficient under applicable laws and regulations. If we are unable to address any information protection concerns, any compromise of security that results unauthorized disclosure or transfer of personal data, or to comply with the then applicable laws and regulations, we may incur additional costs and liability and result in governmental enforcement actions, litigation, fines and penalties or adverse publicity and could cause our users and clients to lose trust in us, which could have a material adverse effect on our business, results of operations, financial condition and prospects. We may also be subject to new laws, regulations or standards or new interpretations of existing laws, regulations or standards, including those in the areas of data security and data privacy, which could require us to incur additional costs and restrict our business operations.

***We have not obtained certain relevant licenses from PRC authorities in connection with some of the information and services available on our platform.***

PRC regulations impose sanctions for engaging in disseminating analysis, forecasting, advisory or other information related to securities and securities markets without having obtained the Securities Investment Consultancy Qualifications in China. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on the Securities Investment Consulting Service." We have not obtained the Securities Investment Consultancy Qualifications in China. Without the required qualifications, we should refrain from as well as explicitly prohibit our users from sharing information related to securities analysis, forecasting or advisory on our platform. However, we cannot assure you that our users will not post articles or share videos that contain analysis, forecasting or advisory content related to securities on our platform. If any of the information or content displayed on our platform is deemed as analysis, forecasting, advisory or other information related to securities or securities markets, or any of our business in the PRC is deemed to be a service providing such information, we may be subject to regulatory measures including warnings, public condemnation, suspension of relevant business and other measures in accordance with applicable laws and regulations. Any such penalties may disrupt our business operations or materially and adversely affect our business, financial condition and results of operations.

In addition, as part of our services, we allow users who register to be hosts to upload and share videos, in our NiuNiu Classroom, a video-based investor education program that offers basics on the Hong Kong and the U.S. securities markets. According to the PRC Administrative Provisions on Internet Audio-Video Program Services, the provider of audio-video service, such as *NiuNiu Classroom*, is required to obtain the Audio and Video Service Permission. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulation on Internet Audio-Visual Program Services." We have not obtained such license for providing internet audio-video program services through our platform in China and may not be able to obtain such license in a timely manner, or at all. We have not received any notices nor have we been subject to

---

## [Table of Contents](#)

regulatory measures from the National Radio and Television Administration as of the date of this prospectus. However, if we are required to obtain an Audio and Video Service Permission or other additional licenses or approvals in connection with our video-based services in China, we may be subject to various penalties, such as confiscation of the net revenues that were generated through the unlicensed internet activities, imposition of fines and termination or restriction of such service offering.

Furthermore, PRC regulations require platforms that disseminate internet news and information services to obtain the License for Internet News Information Services. See “Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulation on Internet News Dissemination.” We have not obtained such license and may not be able to obtain such license in a timely manner, or at all. As our platform displays news and information related to the financial market, we may be deemed as engaging in disseminating news and information through the internet and subject to penalties including imposition of fines and termination or restriction of such service offering. In addition, the PRC government may impose specific requirement on financial information services, which may also affect our business and operations.

PRC laws and regulations are evolving, and there are uncertainties relating to the regulation of different aspects of the services we provide through our platforms in China. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in or discrepancies with respect to the relevant authorities’ interpretation of these laws and regulations. In addition, we may be required to obtain additional license or approvals, and we cannot assure you that we will be able to timely obtain or maintain all the required licenses or approvals or make all the necessary filings in the future.

### ***Employee misconduct could expose us to significant legal liability and reputational harm.***

We operate in an industry in which integrity and the confidence of our users and clients are of critical importance. During our daily operations, we are subject to the risks of errors and misconduct by our employees, which include:

- engaging in misrepresentation or fraudulent activities when marketing or performing online brokerage and other services to users and clients;
- improperly using or disclosing confidential information of our users and clients or other parties;
- concealing unauthorized or unsuccessful activities; or
- otherwise not complying with applicable laws and regulations or our internal policies or procedures.

If any of our employees engages in illegal or suspicious activities or other misconduct, we could suffer serious harm to our reputation, financial condition, client relationships and ability to attract new clients and even be subject to regulatory sanctions and significant legal liability. For example, a current employee of ours was previously investigated and imposed a regulatory sanction by the HK SFC due to certain misconduct in violation of regulatory rules that he committed when he worked for his former employer. Although such incident occurred before the employee joined our company and is unrelated to us, the sanction was imposed against such employee during his employment with us and his ability to perform certain regulated functions at his current employment with us was temporarily impaired due to the sanction. We may also be subject to negative publicity from the sanction that would adversely affect our brand, public image and reputation, as well as potential challenges, suspicions, investigations or alleged claims against us. It is not always possible to deter misconduct by our employees or senior management during the ongoing operations of our business or uncover any misconduct occurred in their past employment, and the precautions we take to detect and prevent any misconduct may not always be effective. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our reputation and our business.

### ***We had incurred net losses in the past, and we may continue to incur losses in the future.***

We had incurred net losses since our inception. In 2016 and 2017, we had net losses of HK\$98.5 million and HK\$8.1 million (US\$1.0 million). Although we have become profitable since 2018, we cannot assure you that

---

## [Table of Contents](#)

we continue to be profitable in the future. We anticipate that our operating costs and expenses will increase in the foreseeable future as we continue to grow our business, attract users and clients, further enhance and develop our service offerings, enhance our technology capabilities and increase our brand recognition. These efforts may prove more costly than we currently anticipate, and we may not succeed in increasing our revenues sufficiently to offset these higher expenses. There are other external and internal factors that could negatively affect our financial condition. For example, the trading volume achieved on our platform may be lower than expected, which may lead to lower than expected revenues. Furthermore, we have adopted a share incentive plan in the past and may adopt new share incentive plans in the future, which have caused, and will result in, significant share-based compensation expenses to us. We generate a substantial majority of our total revenues from commission fees charged to clients who trade on our platform. Any material decrease in our commission fees would have a substantial impact on our financial conditions. As a result of the foregoing and other factors, we may continue to incur net losses in the future.

***If there is any negative publicity with respect to us, our industry peers or our industries in general, our business and results of operations may be materially and adversely affected.***

Our reputation and brand recognition plays an important role in earning and maintaining the trust and confidence of high net worth individuals or enterprises that are current or potential users and clients. Our reputation and brand is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries or investigations, lawsuits initiated by clients or other third parties, employee misconduct, perceptions of conflicts of interest and rumors, among other things, could substantially damage our reputation, even if they are baseless or satisfactorily addressed. In addition, any perception that the quality of our online brokerage and other financial services may not be the same as or better than that of other online brokerage and financial service firms can also damage our reputation. Moreover, any negative media publicity about the financial service industry in general or product or service quality problems of other firms in the industry, including our competitors, may also negatively impact our reputation and brand. If we are unable to maintain a good reputation or further enhance our brand recognition, our ability to attract and retain users, clients, third-party partners and key employees could be harmed and, as a result, our business and revenues would be materially and adversely affected.

***We may not succeed in promoting and sustaining our brand, which could have an adverse effect on our future growth and business.***

A critical component of our future growth is our ability to promote and sustain our brand. Promoting and positioning our brand and platform will depend largely on the success of our marketing efforts, our ability to attract users and clients cost-efficiently and our ability to consistently provide high-quality services and a superior experience. We have incurred and will continue to incur significant expenses related to advertising and other marketing efforts, which may not be effective and may adversely affect our net margins.

In addition, to provide a high-quality user and client experience, we have invested and will continue to invest substantial amounts of resources in the development and functionality of our platform, website, technology infrastructure and client service operations. Our ability to provide a high-quality user and client experience is also highly dependent on external factors over which we may have little or no control, including, without limitation, the reliability and performance of software vendors and business partners. Failure to provide our users and clients with high quality services and experience for any reason could substantially harm our reputation and adversely impact our efforts to develop a trusted brand, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Fraudulent or illegal activities on our platform could negatively impact our brand and reputation and cause the loss of users and clients. As a result, our business may be materially and adversely affected.***

We have implemented stringent internal control policies and anti-money laundering and other anti-fraud rules and mechanisms on our platform. Nevertheless, we remain subject to the risk of fraudulent or illegal

---

## [Table of Contents](#)

activities both on our platform and associated with our users and clients, funding and other business partners, and third parties handling user and client information. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraudulent or illegal activities. Significant increases in fraudulent or illegal activities could negatively impact our brand and reputation, reduce the trading volume on our platform and therefore harm our operating and financial results. We might also incur higher costs than expected in order to take additional steps to reduce risks related to fraudulent and illegal activities. High-profile fraudulent or illegal activities could also lead to regulatory intervention, and may divert our management's attention and cause us to incur additional regulatory and litigation expenses and costs. In addition, we could suffer serious harm to our reputation, financial condition, client relationships and ability to attract new clients and even be subject to regulatory sanctions and significant legal liability, if any of our employees engages in illegal or suspicious activities or other misconduct. See “—Employee misconduct could expose us to significant legal liability and reputational harm.” Although we have not experienced any material business or reputational harm as a result of fraudulent or illegal activities in the past, we cannot rule out the possibility that any of the foregoing may occur causing harm to our business or reputation in the future. If any of the foregoing were to occur, our results of operations and financial conditions could be materially and adversely affected.

***Our platform and internal systems rely on software and technological infrastructure that is highly technical, and if they contain undetected errors, our business could be adversely affected.***

Our platform and internal systems rely on software that is highly technical and complex. In addition, our platform and internal systems depend on the ability of the software to store, retrieve, process and manage immense amounts of data. The software on which we rely has contained, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in a negative experience for users and financial service providers, delay introductions of new features or enhancements, result in errors or compromise our ability to protect data or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation, loss of users or financial service providers or liability for damages, any of which could adversely affect our business, results of operations and financial conditions.

***A significant decrease in our liquidity could negatively affect our business and financial management as well as reduce client confidence in our company.***

Maintaining adequate liquidity is crucial to our business operations. We meet our liquidity needs primarily through cash generated by client trading activities and operating earnings, as well as cash provided by external financing. Fluctuations in client cash or deposit balances, as well as changes in regulatory treatment of client deposits or market conditions, may affect our ability to meet our liquidity needs. A reduction in our liquidity position could reduce our users' and clients' confidence, which could result in the loss of client trading accounts, or could cause us to fail to satisfy our liquidity requirements. In addition, if we fail to meet regulatory capital guidelines, regulators could limit our operations.

Factors which may adversely affect our liquidity position include having temporary liquidity demands due to timing differences between brokerage transaction settlements and the availability of segregated cash balances, unanticipated outflows of company cash, fluctuations in cash held in banking or brokerage client trading accounts, a dramatic increase in clients' margin-financing activities, increased capital requirements, changes in regulatory guidance or interpretations, other regulatory changes, or a loss of market or client confidence.

If cash generated by client trading activities and operating earnings is not sufficient for our liquidity needs, we may be forced to seek external financing. During periods of disruptions in the credit and capital markets, potential sources of external financing could be reduced, and borrowing costs could increase. Financing may not be available on acceptable terms, or at all, due to market conditions or disruptions in the credit markets. If we experience any significant decrease in our liquidity, our business, financial condition and results of operations could be adversely impacted.

---

## [Table of Contents](#)

### ***A significant change in clients' cash allocations could negatively impact our net interest revenues and financial results.***

We derive interest income from depositing un-invested cash balances in our clients' brokerage trading accounts opened with us at our bank partners. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated HK\$4.0 million, HK\$34.1 million (US\$4.4 million) and HK\$74.2 million (US\$9.5 million) interest income from bank deposit, respectively, a significant portion of which was derived from uninvested cash balances in our clients' accounts. As a result, a significant reduction in our clients' allocation to cash, a change in the allocation of that cash, or a transfer of cash out of their accounts on our platform could reduce our interest income and our financial results.

### ***Our clearing operations expose us to liability for errors in clearing functions.***

Our HK SFC-licensed subsidiary, Futu Securities International (Hong Kong) Limited, or Futu International Hong Kong, provides clearing and execution services for our brokerage business involving securities listed on the Hong Kong Stock Exchange or qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect. Clearing and execution services include the confirmation, receipt, settlement, delivery and record-keeping functions involved in securities transactions. Clearing brokers also assume direct responsibility for the possession or control of client securities and other assets and the clearing of client securities transactions. However, clearing brokers also must rely on third-party clearing organizations, such as Hong Kong's Central Clearing and Settlement System, or CCASS, in settling client securities transactions. Clearing securities firms, such as Futu International Hong Kong, are subject to substantially more regulatory control and examination than introducing brokers who rely on others to perform clearing functions. Errors in performing clearing functions, including clerical and other errors related to the handling of funds and securities held by us on behalf of clients, could lead to regulatory fines and civil penalties as well as losses and liability in related legal proceedings brought by clients and others.

### ***Our corporate actions will be substantially controlled by our founder, chairman and chief executive officer, Mr. Leaf Hua Li, who will have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your ADSs and materially reduce the value of your investment.***

Immediately following this offering, Mr. Leaf Hua Li, our founder, chairman and chief executive officer, will beneficially own approximately \_\_\_\_\_ of our outstanding shares or \_\_\_\_\_ % of the total voting power of our outstanding shares assuming the underwriters do not exercise their option to purchase additional ADS. Accordingly, Mr. Li will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations, election of directors and other significant corporate actions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of the ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase ADSs in this offering.

### ***Our success depends on the continuing service of our key employees, including our senior management members and other talent, who are highly sought after in the market. If we fail to hire, retain and motivate our key employees, our business may suffer.***

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, as well as the services provided by our staff of trading system, technology and programming specialists and a number of other key managerial, marketing, planning, financial, technical and operations personnel. The loss of such key personnel could have a material adverse effect on our business. Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees.

---

## [Table of Contents](#)

Competition for well-qualified employees in all aspects of our business, including software engineers and other technology professionals, is intense globally. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees and key senior management, our business, results of operations, financial condition and prospects may be adversely affected.

### ***Our business growth may be affected by macroeconomic conditions.***

The strong growth of China's offshore investment and wealth management markets in recent years has been mainly driven by the rapid expansion in personal investable assets attributable to the increased number of high net-worth individuals and affluent groups and their increasing demands for geographically diverse investment portfolios. However, slowdowns in the Chinese economy will affect the income growth of such individuals, who are the main investors in the investment and wealth management markets outside China, and add uncertainties to these markets.

In addition, uncertainties about China and global economic conditions and regulatory changes pose a risk as retail investors and businesses may postpone spending in response to credit constraint, rising unemployment rates, financial market volatility, government austerity programs, negative financial news, declines in income or asset values and/or other factors. These worldwide and regional economic conditions could affect and reduce investment behavior and appetites of retail investors and have a material adverse effect on the demand for our products and services. Demand also could differ materially from our expectations as a result of currency fluctuations. Other factors that could influence worldwide or regional demand include changes in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors. These and other economic factors could materially and adversely affect demand for our products and services. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

### ***Any failure to protect our intellectual property could harm our business and competitive position.***

We rely primarily on trade secret, contract, copyright, trademark and patent law to protect our proprietary technology. It is possible that third parties may copy or otherwise obtain and use our proprietary technology without authorization or otherwise infringe on our rights. We may not be able to successfully pursue claims for infringement that interfere with our ability to use our technology, website or other relevant intellectual property or have adverse impact on our brand. We cannot assure you that any of our intellectual property rights would not be challenged, invalidated or circumvented, or such intellectual property will be sufficient to provide us with competitive advantages. In addition, other parties may misappropriate our intellectual property rights, which would cause us to suffer economic or reputational damages. Because of the rapid pace of technological change, nor can we assure you that all of our proprietary technologies and similar intellectual property will be patented in a timely or cost-effective manner, or at all. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these other parties on reasonable terms, or at all.

### ***We may be subject to intellectual property infringement claims, which may be expensive to defend and disruptive to our business and operations.***

Content sourced from third parties is frequently posted on our platform by our employees and users and clients. Although we follow common content management and review practices to monitor the content uploaded to our platform, we may not be able to identify all content that may infringe on third-party rights. We cannot be certain that information posted on our platform and other aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. We may be from time to time in the future be subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other parties' trademarks,

---

## [Table of Contents](#)

copyrights, know-how, proprietary technologies or other intellectual property rights that are infringed by our platform or services or other aspects of our business without our knowledge. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, Hong Kong, the United States or other jurisdictions. If any infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

***We may be held liable for information or content displayed on, retrieved from or linked to our platform, which may materially and adversely affect our business and operating results.***

The PRC government has adopted regulations governing internet access and distribution of information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs public interest or the national dignity of China, contains terrorism, extremism, or content of force or brutality, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other licenses, the closure of the concerned websites and criminal liabilities. In the past, failure to comply with these requirements has resulted in the closure of certain websites. The website operator may also be held liable for the censored information displayed on or linked to the website.

In particular, the Ministry of Industry and Information Technology has published regulations that subject website operators to potential liability for content displayed on their websites and the actions of users and others using their systems, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider to block any internet website at its sole discretion, or to stop the dissemination over the internet of information which it believes to be socially destabilizing. Furthermore, we are required to report any suspicious content to relevant governmental authorities, and to undergo computer security inspections. If it is found that we fail to implement the relevant safeguards against security breaches, our business in China may be shut down.

According to the Administrative Provisions on Mobile Internet Applications Information Services which was promulgated by the Cyberspace Administration of China and became effective in August 2016, providers of mobile apps shall not create, copy, publish or distribute information and content through mobile applications that is prohibited by laws and regulations. We are required to adopt and implement management systems of information security and establish and improve procedures on content examination and administration. We must adopt such measures as warning, restricted release, suspension of updates and closing of accounts, keep relevant records, and report unlawful content to competent government authorities. We have implemented internal control procedures screening the information and content on our platform interface to ensure their compliance with these provisions. However, there can be no assurance that all of the information or content displayed on, retrieved from or linked to our mobile apps complies with the requirements of the provisions at all times. If our mobile apps are found to violate the provisions, we may be subject to penalties, including warning, service suspension or removal of our mobile apps from the relevant mobile app store, which may materially and adversely affect our business and operating results.

***We may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending ourselves against such claims or proceedings.***

We are subject to lawsuits and other claims in the ordinary course of our business. Our business operations entail substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, client on boarding procedures, sales practices, product design, fraud and misconduct, and control procedures deficiencies, as well as the protection of personal and confidential information of our clients. We may be subject to arbitration claims and lawsuits in the ordinary course of our business. We may also be

---

## [Table of Contents](#)

subject to inquiries, inspections, investigations and proceedings by regulatory and other governmental agencies. See “—We are subject to extensive and evolving regulatory requirements in Hong Kong, non-compliance with which, may result in penalties, limitations and prohibitions on our future business activities or suspension or revocation of our licenses and trading rights, and consequently may materially and adversely affect our business, financial condition, operations and prospects. In addition, we are involved in ongoing inquiries and investigations by the HK SFC” and “Business—Ongoing Regulatory Actions.” Actions brought against us may result in settlements, injunctions, fines, penalties, suspension or revocation of license, reprimands or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. In market downturns, the number of legal claims and the amount of damages sought in legal proceedings may increase.

In addition, we may face arbitration claims and lawsuits brought by our users and clients who have used our online brokerage or other financial services and found them unsatisfactory. We may also encounter complaints alleging misrepresentation with regard to our platform and/or services. This risk may be heightened during periods when credit, equity or other financial markets are deteriorating in value or are volatile, or when clients are experiencing losses. Actions brought against us may result in settlements, awards, injunctions, fines, penalties or other results adverse to us including harm to our reputation. Even if we are successful in defending against these actions, the defense of such matters may result in our incurring significant expenses. Predicting the outcome of such matters is inherently difficult, particularly where claimants seek substantial or unspecified damages, or when arbitration or legal proceedings are at an early stage. A significant judgement or regulatory action against us or a material disruption in our business arising from adverse adjudications in proceedings against the directors, officers or employees would have a material adverse effect on our liquidity, business, financial condition, results of operations and prospects.

***Our risk management policies and procedures may not be fully effective in identifying or mitigating risk exposure in all market environments or against all types of risks.***

We have devoted significant resources to developing our risk management policies and procedures and will continue to do so. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure in all market environments or against all types of risks. Many of our risk management policies are based upon observed historical market behavior or statistics based on historical models. During periods of market volatility or due to unforeseen events, the historically derived correlations upon which these methods are based may not be valid. As a result, these methods may not predict future exposures accurately, which could be significantly greater than what our models indicate. This could cause us to incur losses or cause our risk management strategies to be ineffective. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that are publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated.

In addition, although we perform due diligence on potential clients, we cannot assure you that we will be able to identify all the possible issues based on the information available to us. If a user or client does not meet the relevant qualification requirements under applicable laws but is still able to use our services, we may be subject to regulatory actions and penalties and held liable for damages. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and these policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risks.

***From time to time we may evaluate and potentially consummate investments and acquisitions or enter into alliances, which may require significant management attention, disrupt our business and adversely affect our financial results.***

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to further increase the value of our platforms and better serve our users and clients. These transactions could be material to

---

## [Table of Contents](#)

our financial condition and results of operations if consummated. We may not have the financial resources necessary to consummate any acquisitions in the future or the ability to obtain the necessary funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets in addition to integration and consolidation risks. Because acquisitions historically have not been a core part of our growth strategy, we have no material experience in successfully utilizing acquisitions. We may not have sufficient management, financial and other resources to integrate any such future acquisitions or to successfully operate new businesses, and we may be unable to profitably operate our expanded company.

***Increases in labor costs in the PRC and Hong Kong and enforcement of stricter labor laws and regulations in the PRC may adversely affect our business and results of operations.***

The economy in China and Hong Kong has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC and Hong Kong are expected to continue to increase. In addition, we are required by PRC and Hong Kong laws and regulations to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs, our financial condition and results of operations may be adversely affected.

***We have identified a material weakness in our internal controls as of December 31, 2017, and if we fail to implement and maintain an effective system of internal controls to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.***

Prior to this offering, we have been a private company with limited accounting personnel and other resources with which to address our internal controls. In the course of auditing our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness in our internal controls. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. One material weakness relates to our lack of a sufficient number of financial reporting personnel with the appropriate level of knowledge and experience in the application of U.S. GAAP and Securities and Exchange Commission, or SEC, rules and regulations commensurate with our reporting requirements. Although we have begun to implement measures to address the material weakness, implementation of those measures may not fully remediate the material weakness in a timely manner. In the future we may determine that we have additional material weaknesses, or our independent registered public accounting firm may disagree with our management assessment of the effectiveness of our internal controls.

If we fail to establish and maintain adequate internal controls, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could limit our access to capital markets, adversely affect our results of operations and lead to a decline in the trading price of the ADSs. Additionally, ineffective internal controls could expose us to an increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list or to other regulatory investigations and civil or criminal sanctions. We could also be required to restate our historical financial statements.

***Fluctuations in exchange rates could have a material adverse effect on our results of operations and the price of the ADSs.***

Although we will have certain expenses and revenues denominated in Renminbi, our revenues and expenses will be denominated predominantly in Hong Kong dollars. The value of the Hong Kong dollar and Renminbi against the U.S. dollar may fluctuate and may be affected by, among other things, changes in political and economic conditions. Although the exchange rate between the Hong Kong dollar to the U.S. dollar has been pegged since 1983, we cannot assure you that the Hong Kong dollar will remain pegged to the U.S. dollar. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of Renminbi to the U.S. dollar, and Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Any significant fluctuations in the exchange rates between Hong Kong dollars or Renminbi to U.S. dollars may have a material adverse effect on our revenues and financial condition. For example, to the extent that we are required to convert U.S. dollars we receive from this offering into Hong Kong dollars or Renminbi for our operations, fluctuations in the exchange rates between Hong Kong dollars or Renminbi against the U.S. dollar would have an adverse effect on the amounts we receive from the conversion. We have not used any forward contracts, futures, swaps or currency borrowings to hedge our exposure to foreign currency risk.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

***Our anticipated international expansion will subject us to additional risks and increased legal and regulatory requirements, which could have a material effect on our business.***

Our historical operations have been focused in Hong Kong and the PRC. In the future, we plan to expand further into international markets, including the United States. As we enter countries and markets that are new to us, we must tailor our services and business model to the unique circumstances of such countries and markets, which can be complex, difficult, costly and divert management and personnel resources. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with global operations in general. Laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses or our failure to adapt our practices, systems, processes and business models effectively to the client preferences of each country into which we expand, could slow our growth. Certain markets in which we operate have, or certain new markets in which we may operate in the future may have, lower margins than our more mature markets, which could have a negative impact on our overall margins as our revenues from these markets grow over time.

In addition to the risks outlined elsewhere in this section, our international expansion is subject to a number of other risks, including:

- currency exchange restrictions or costs and exchange rate fluctuations

---

## [Table of Contents](#)

- exposure to local economic or political instability, threatened or actual acts of terrorism and security concerns in general;
- weaker or uncertain enforcement of our contractual and intellectual property rights;
- preferences by local populations for local service providers;
- slower adoption of the internet and mobile devices as advertising, broadcast and commerce mediums and the lack of appropriate infrastructure to support widespread internet and mobile device usage in those markets;
- difficulties in attracting and retaining qualified employees in certain international markets, as well as managing staffing and operations due to increased complexity, distance, time zones, language and cultural differences; and
- uncertainty regarding liability for services and content, including uncertainty as a result of local laws and lack of precedent.

Such international expansion will also subject us to additional legal and regulatory control and requirements. While we currently do not execute securities trades directly on the U.S. stock exchanges, we aggregate trade instructions from clients for securities traded on the major stock exchanges in the United States and collaborate with qualified third-party brokerage companies who execute and settle trade orders for our clients. Our wholly-owned subsidiary, Futu Inc., is registered with the United States Securities and Exchange Commission (“SEC”) as a broker-dealer and is a member in good standing of the Financial Industry Regulatory Authority (“FINRA”). Another wholly-owned subsidiary of ours, Futu Clearing Inc., has applied for a clearing license in the U.S. with the SEC. However, we cannot assure you that Futu Clearing Inc. will obtain the clearing license in a timely fashion, or at all. As we continue to expand our business in the United States, we may be subject to additional regulations imposed by the SEC, FINRA and other regulatory agencies. In addition, U.S. domestic and foreign stock exchanges, other self-regulatory organizations and state and foreign securities commissions can censure, fine, issue cease-and-desist orders, or suspend or expel a broker-dealer or any of its officers or employees. Our ability to comply with all applicable laws and rules is largely dependent on our internal system to ensure compliance, as well as our ability to attract and retain qualified compliance personnel. We could be subject to disciplinary or other actions in the future due to claimed noncompliance, which could have a material adverse effect on our business, financial condition and results of operations. To continue to expand our services internationally, we may have to comply with the regulatory controls of each country in which we conduct or intend to conduct business, the requirements of which may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions, which are often unclear, may limit our ability to continue existing international operations and further expand internationally.

***Any failure by us or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation.***

We are required to comply with applicable anti-money laundering and counter terrorism laws and regulations in Hong Kong, the PRC and other relevant jurisdictions. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, designate an independent anti-money laundering reporting officer, establish a customer due diligence system in accordance with relevant rules, record the details of client activities and report suspicious transactions to the relevant authorities.

We have implemented various policies and procedures in compliance with all applicable anti-money laundering and anti-terrorist financing laws and regulations, including internal controls and “know-your-customer” procedures, for preventing money laundering and terrorist financing. In addition, our institutional partners in Hong Kong have their own appropriate anti-money laundering policies and procedures with respect to

---

## [Table of Contents](#)

accounts opening services for our clients. Certain of our institutional partners are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the HK SFC, the Hong Kong Monetary Authority and the PBOC. We have adopted commercially reasonable procedures for monitoring our institutional funding partners. In the event that we fail to fully comply with the applicable laws and regulations, the relevant government authorities may freeze our assets or impose fines or other penalties on us. There can be no assurance that there will not be failures in detecting money laundering or other illegal or improper activities, which may adversely affect our business, reputation, financial condition and results of operations.

Our policies and procedures may not be completely effective in preventing other parties from using us or any of our institutional funding partners as a conduit for money laundering (including illegal cash operations) or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could suffer and we could become subject to regulatory fines, sanctions, or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we and our institutional funding partners comply with the applicable anti-money laundering laws and regulations, we and institutional funding partners may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that arising from any failure of other online brokerage firms to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established, and negatively impact our financial condition and results of operation. See also “—Risks related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements in Hong Kong, non-compliance with which, may result in penalties, limitations and prohibitions on our future business activities or suspension or revocation of our licenses and trading rights, and consequently may materially and adversely affect our business, financial condition, operations and prospects. In addition, we are involved in ongoing inquiries and investigations by the HK SFC.”

### ***Our business may be affected by the Competition Ordinance of Hong Kong.***

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) came into full effect in Hong Kong on December 14, 2015. The Competition Ordinance prohibits and deters undertakings in all sectors from adopting anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. The key prohibitions include (i) prohibition of agreements between businesses which have the object or effect of preventing, restricting or distorting competition in Hong Kong; and (ii) prohibiting companies with a substantial degree of market power, including monopolists, from abusing their power by engaging in conduct that has the object or effect of harming competition in Hong Kong. There are very severe penalties for breaches of the Competition Ordinance, including financial penalties of up to 10.0% of the total gross revenues obtained in Hong Kong for each year of infringement, up to a maximum of three years in which the contravention occurs.

Since the Competition Ordinance has only been operational since December 2015, there are uncertainties on the full effect of the rules in respect of compliance, infringement and its effect on our sales. We may face difficulties and may need to incur legal costs in ensuring our compliance with the Competition Ordinance. We may also inadvertently infringe the Competition Ordinance and under such circumstance, we may be subject to fines and/or other penalties, incur substantial legal costs and experience business disruption and/or negative media coverage, which could adversely affect our business, results of operations and reputation.

### ***We have limited business insurance coverage.***

We currently carry limited insurance in connection with our brokerage business covered by the Type 1 license from HK SFC against certain risks in accordance with the requirements under the Securities and Futures

---

## [Table of Contents](#)

(Insurance) Rules of Hong Kong. However, we do not carry business interruption insurance to compensate for losses that could occur to the extent not required. We also do not maintain general product liability insurance or key-man insurance, and only maintain limited general property insurance. We consider our insurance coverage to be reasonable in light of the nature of our business, but we cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

***We may not be able to obtain additional capital when desired, on favorable terms or at all. If we fail to meet the capital requirement pursuant to the Securities and Futures (Financial Resources) Rules, our business operations and performance will be adversely affected.***

We anticipate that the net proceeds we receive from this offering, together with our current cash, cash provided by operating activities and funds available through our bank loans and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months. However, we need to make continued investments in facilities, hardware, software, technological systems and to retain talented personnel to remain competitive. Due to the unpredictable nature of the capital markets and our industry, we cannot assure you that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited, which would adversely affect our business, financial condition and results of operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders. In addition, Futu Securities International (Hong Kong) Limited, our HK SFC licensed subsidiary, is required under the Securities and Futures (Financial Resources) Rules to maintain certain level of liquid capital. If we fail to maintain the required level of liquid capital, the HK SFC may take actions against us and our business will be adversely affected.

***Internet-related issues may reduce or slow the growth in the use of our services in the future. In particular, our future growth depends on the further acceptance of the internet and particularly the mobile internet as an effective platform for assessing trading and other financial services and content.***

Critical issues concerning the commercial use of the internet, such as ease of access, security, privacy, reliability, cost, and quality of service, remain unresolved and may adversely impact the growth of internet use. If internet usage continues to increase rapidly, the internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline. Continuous rapid growth in internet traffic may cause decreased performance, outages and delays. Our ability to increase the speed with which we provide services to users and clients and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of our users' and clients' access to the internet, which is beyond our control. If periods of decreased performance, outages or delays on the internet occur frequently or other critical issues concerning the internet are not resolved, overall internet usage or usage of our web-based services could increase more slowly or decline, which would cause our business, results of operations and financial condition to be materially and adversely affected.

Furthermore, while the internet and the mobile internet have gained increased popularity in China and Hong Kong as platforms for financial products and content in recent years, many investors have limited experience in trading and using other financial services online. For example, investors may not find online content to be reliable sources of financial product information. If we fail to educate investors about the value of our platform and our services, our growth will be limited and our business, financial performance and prospects may be materially and adversely affected. The further acceptance of the internet and particularly the mobile

---

## [Table of Contents](#)

internet as an effective and efficient platform for trading and other financial services and content is also affected by factors beyond our control, including negative publicity around online and mobile brokerage services and restrictive regulatory measures taken by the PRC government. If online and mobile networks do not achieve adequate acceptance in the market, our growth prospects, results of operations and financial condition could be harmed.

***We depend on contractual arrangements with our VIE and its shareholders to operate a limited part of our business in China, which may not be as effective as direct ownership in providing operational control and otherwise have a material adverse effect as to our business.***

Although the vast majority of our business is conducted in Hong Kong, we depend on our VIE to conduct a limited part of our operations in China. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated 2.9%, 1.5% and 0.3% of our total revenues through our VIE in China, respectively, whose assets accounted for 0.7%, 0.2% and 0.1% of our total assets during the same years, respectively. For a description of these contractual arrangements, see “Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIE. If our VIE or its shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our VIE is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our VIE, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

All of these contractual arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from these contractual arrangements will be resolved through arbitration in China. However, such arbitration provisions do not apply to claims made under the United States federal securities laws. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our VIE, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. See “—Risks Related to Doing Business in China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.” In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

***The shareholders of our VIE in China may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

In connection with our operations in China, we depend on the shareholders of our VIE to abide by the obligations under such contractual arrangements. The interests of these shareholders in their individual capacities as the shareholders of our VIE may differ from the interests of our company as a whole, as what is in the best interests of our VIE, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or those conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our VIE and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

---

## [Table of Contents](#)

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of our VIE may encounter, on one hand, and as a beneficial owner of our company, on the other hand. We, however, could, at all times, exercise our option under the exclusive option agreement to cause them to transfer all of their equity ownership in our VIE to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of our VIE as provided under the power of attorney agreements, directly appoint new directors of our VIE. We rely on the shareholders of our VIE to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our VIE, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

### ***We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.***

Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns affecting the PRC and Hong Kong. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to operate our platform and provide services and solutions. Our business could also be adversely affected if our employees are affected by health epidemics. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general. Our headquarters are located in Shenzhen and Hong Kong, where most of our management and employees currently reside. Most of our system hardware and back-up systems are hosted in facilities located in Shenzhen and Hong Kong. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shenzhen and/or Hong Kong, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

### **Risks Related to Doing Business in China**

#### ***Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.***

Our financial condition and results of operations are affected by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented

---

## [Table of Contents](#)

various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

***There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.***

A limited part of our operations is conducted in the PRC and is governed by PRC laws, rules and regulations. Our PRC subsidiaries and VIE are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

***If the PRC government deems that the contractual arrangements in relation to our VIE do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

The PRC government regulates internet-based businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in internet-based businesses. Specifically, the Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2018 Version) provides that foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider other than an e-commerce service provider which does not apply to us.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiaries, Shen Si Network Technology (Beijing) Co., Ltd., or Shensi Beijing, Futu Internet Technology (Shenzhen) Co., Ltd., Shenzhen Shidai Futu Consulting Co., Ltd. and Shenzhen Qianhai Fuzhitu Investment Consulting Management Co., Ltd.

---

## [Table of Contents](#)

are foreign-invested enterprises, or FIEs. To comply with PRC laws and regulations, we conduct our business in China through our VIE and its affiliates. Shensi Beijing has entered into a series of contractual arrangements with our VIE and its shareholders. In addition, pursuant to the resolutions of all shareholders of Futu Holdings Limited and the resolutions of the board of directors of Futu Holdings Limited, the board of directors of Futu Holdings Limited or any officer authorized by such board shall cause Shensi Beijing to exercise Shensi Beijing's rights under the power of attorney agreements entered into among Shensi Beijing, Shenzhen Futu and the shareholders of Shenzhen Futu, as well as Shensi Beijing's rights under the exclusive option agreement between Shensi Beijing and Shenzhen Futu. As a result of these resolutions and the provision of unlimited financial support from our Company to Shenzhen Futu, we are considered to be its primary beneficiary for accounting purposes under U.S. GAAP. For a description of these contractual arrangements, see "Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders."

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC legal counsel, based on its understanding of the relevant laws and regulations currently in effect, is of the opinion that each of the contracts among our wholly-owned PRC subsidiary, our VIE and its shareholders is valid, binding and enforceable in accordance with its terms. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government authorities, such as the Ministry of Commerce, or the MOFCOM, or the MIIT, or other authorities that regulate the telecommunications industry, would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If our corporate structure and contractual arrangements are deemed by the MIIT or the MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, we may lose control of our VIE and have to modify such structure to comply with regulatory requirements. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down our services;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to change our corporate structure and contractual arrangements;
- restricting or prohibiting our use of the proceeds from overseas offering to finance our PRC VIE's business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. See "—Substantial uncertainties exist with respect to the enactment timetable and final content of a draft new PRC Foreign Investment Law and

---

## [Table of Contents](#)

how it may impact the viability of our current corporate structure and operations.” Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our VIE or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of such VIE in our consolidated financial statements. See “Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders.”

### ***Our contractual arrangements with our VIE may result in adverse tax consequences to us.***

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our VIE were not made on an arm’s length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the tax liabilities of our VIE without reducing the tax liability of our subsidiaries, which could further result in late payment fees and other penalties to our VIE for underpaid taxes; or (ii) limiting the ability of our VIE to obtain or maintain preferential tax treatments and other financial incentives.

### ***Substantial uncertainties exist with respect to the enactment timetable and final content of a draft new PRC Foreign Investment Law and how it may impact the viability of our current corporate structure and operations.***

In January 2015, the Ministry of Commerce, or MOFCOM, published a discussion draft of the Foreign Investment Law or the 2015 Draft Foreign Investment Law for public review and comment. On December 26, 2018, the National People’s Congress published the amended and revised draft of the Foreign Investment Law to replace the 2015 Draft Foreign Investment Law, or the 2018 Draft Foreign Investment Law, for public consultation. Among other things, the 2015 Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company should be treated as a foreign invested enterprise, or FIE. Once an entity falls within the definition of FIE, it may be subject to foreign investment “restrictions” or “prohibitions” set forth in a “negative list” to be separately issued by the State Council later. If an FIE proposes to conduct business in an industry subject to foreign investment “restrictions” in the “negative list,” the FIE must go through a pre-approval process. The 2018 Draft Foreign Investment Law have revised the definition of “foreign investment” and removed all references to the definitions of “actual control” or “variable interest entity structure” under the 2015 Draft Foreign Investment Law, and have further specified that all “foreign investments” shall be conducted pursuant to the negative list issued or approved to be issued by the State Council.

Under the 2018 Draft Foreign Investment Law, the internet content service that we conduct through our VIE and its subsidiaries are subject to foreign investment restrictions set forth in the Market Access Negative List (2018 Version), or Negative List, for the access of foreign investment issued by MOFCOM and the National Development and Reform Commission. It is still unclear whether the “negative list” under the Foreign Investment Law when it is signed into law will be different from the Negative List. Substantial uncertainties exist with respect to the enactment timetable and final content of the draft Foreign Investment Law.

To date, there is no timetable for the enactment of the 2018 Draft Foreign Investment Law and there are uncertainties as to whether the 2018 Draft Foreign Investment Law would be further amended, revised or updated. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions to be taken by us, such as a MOFCOM pre-approval process, there is no assurance that we can obtain such pre-approval on a timely basis, or at all.

---

## [Table of Contents](#)

***The approval of the China Securities Regulatory Commission, or the CSRC, may be required in connection with this offering under a PRC regulation. The regulation also establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.***

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or the CSRC, promulgated the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. This regulation, among other things, requires offshore special purpose vehicles, or SPVs, formed for the purpose of an overseas listing and controlled by PRC companies or individuals, to obtain the CSRC approval prior to listing their securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and this offering may ultimately require approval from the CSRC. If CSRC approval is required, it is uncertain whether it would be possible for us to obtain the approval, and any failure to obtain or delay in obtaining CSRC approval for this offering would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. Our PRC legal counsel, CM Law Firm, has advised us that, based on their understanding of the current PRC laws, the CSRC approval is not required under the M&A Rules in the context of this offering because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this prospectus are subject to this regulation; (ii) our wholly owned PRC subsidiaries were established by foreign direct investment, rather than through a merger or acquisition of a domestic company as defined under the M&A Rules; and (iii) no explicit provision in the M&A Rules classifies the contractual arrangements between us and the VIE as a type of acquisition transaction falling under the M&A Rules.

However, we have been advised by our PRC legal counsel that there are uncertainties regarding the interpretation and application of the PRC law, and there can be no assurance that the PRC government will ultimately take a view that is not contrary to the above opinion of our PRC legal counsel. If it is determined that the CSRC approval is required for this offering, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek the CSRC approval for this offering. These sanctions may include fines and penalties on our operations in the PRC although, to our knowledge, no definitive rules or interpretations have been issued to determine or quantify such fines or penalties, delays or restrictions on the repatriation of the proceeds from this offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiaries, or other actions that may have a material adverse effect on our business and the trading price of the ADSs. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable to us, to halt this offering before the settlement and delivery of the ADSs that we are offering. Consequently, if you engage in market trading or other activities in anticipation of and prior to the settlement and delivery of the ADSs we are offering, you would be doing so at the risk that the settlement and delivery may not occur. In addition, if the CSRC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for this offering, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver.

***PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.***

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, which replaces the previous SAFE Circular 75. SAFE Circular 37 requires PRC residents, including PRC individuals and PRC corporate entities, to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. See "Regulations—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents." SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we may make in the future.

---

## [Table of Contents](#)

Under SAFE Circular 37, PRC residents who make, or have prior to the implementation of SAFE Circular 37 made, direct or indirect investments in offshore special purpose vehicles, or SPVs, are required to register such investments with SAFE or its local branches. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to update its registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE to reflect any material change. If any PRC resident shareholder of such SPV fails to make the required registration or to update the registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contributions into its subsidiaries in China. In February, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound direct investments, including those required under SAFE Circular 37, must be filed with qualified banks instead of SAFE. Qualified banks should examine the applications and accept registrations under the supervision of SAFE. We have used our best efforts to notify PRC residents or entities who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents to complete the foreign exchange registrations. However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our company, nor can we compel our beneficial owners to comply with SAFE registration requirements. We cannot assure you that all other shareholders or beneficial owners of ours who are PRC residents or entities have complied with, and will in the future make, obtain or update any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Furthermore, as these foreign exchange and outbound investment related regulations are relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border investments and transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. We cannot assure you that we have complied or will be able to comply with all applicable foreign exchange and outbound investment related regulations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

***Any failure to comply with PRC regulations regarding our employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

Under the applicable regulations and SAFE rules, PRC citizens who participate in an employee stock ownership plan or a stock option plan in an overseas publicly listed company are required to register with SAFE and complete certain other procedures. In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE in March 2007. Pursuant to the Stock Option Rules, if a PRC resident participates in any stock incentive plan of an overseas publicly-listed company, a qualified PRC domestic agent must, among other things, file on behalf of such participant an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain

---

## [Table of Contents](#)

approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participant holds. Such participating PRC residents' foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a PRC collective foreign currency account opened and managed by the PRC agent before distribution to such participants. We and our PRC resident employees who have been granted stock options or other share-based incentives of our Company will be subject to the Stock Option Rules when our Company becomes an overseas listed company upon the completion of this offering. If we or our PRC resident participants fail to comply with these regulations, we and/or our PRC resident participants may be subject to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Employee Share Incentive Plans of Overseas Publicly-Listed Company."

***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries and our VIE and its subsidiaries.***

We are an offshore holding company with some of our operations conducted in China. We may make loans to our PRC subsidiaries and VIE subject to the approval, registration, and filing with governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China. Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to foreign exchange loan registrations with the National Development and Reform Commission and SAFE or its local branches. In addition, a foreign invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of a foreign invested enterprise shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals or filings on a timely basis, if at all, with respect to future loans by us to our PRC subsidiary or VIE or with respect to future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from this offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

***We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.***

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside the PRC with "de facto management body" within the PRC is considered a "resident enterprise" and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, SAT issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the

---

## [Table of Contents](#)

SAT's general position on how the "de facto management body" text should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of board members with voting rights or senior executives habitually reside in the PRC.

We believe that our Cayman Islands holding company, Futu Holdings Limited, is not a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that our Cayman Islands holding company is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders, including the ADS holders, may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of ADSs or Class A ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to our non-PRC individual shareholders, including the ADS holders, and any gain realized on the transfer of ADSs or Class A ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% which in the case of dividends may be withheld at source. Any PRC tax liability may be reduced by an applicable tax treaty. However, it is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs or Class A ordinary shares.

In addition to the uncertainty as to the application of the "resident enterprise" classification, we cannot assure you that the PRC government will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements or higher tax rates. Any of such changes could materially and adversely affect our financial condition and results of operations.

***Dividends payable to our foreign investors and gains on the sale of the ADSs or Class A ordinary shares by our foreign investors may become subject to PRC tax.***

Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or Class A ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our Class A ordinary shares or ADSs, and any gain realized from the transfer of our Class A ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or Class A ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of the ADSs or Class A ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our

---

## [Table of Contents](#)

non-PRC investors, or gains from the transfer of the ADSs or Class A ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in the ADSs or Class A ordinary shares may decline significantly.

***We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.***

In February 2015, SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 extends its tax jurisdiction to transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clear criteria for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. In October 2017, SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an indirect transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer other than transfer of Shares of ADSs acquired and sold on public markets may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of certain past and future transactions that involve PRC taxable assets, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Public Notice 7 or SAT Bulletin 37, or both.

***We are subject to PRC restrictions on currency exchange.***

Some of our revenues and expenses are denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or VIE. Currently, certain of our PRC subsidiaries may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. Since a part of our future net income and cash flow will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of the ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our subsidiaries and VIE.

---

## [Table of Contents](#)

***If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations may be materially and adversely affected.***

Under PRC law, legal documents for corporate transactions, including agreements and contracts such as the leases and sales contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the market supervision administration.

In order to maintain the physical security of our chops and the chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel of each of our PRC subsidiary and consolidated entities. Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC subsidiary or consolidated entities, we, our PRC subsidiaries or consolidated entities would need to pass a new shareholder or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

***The audit report included in this prospectus is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit report included in our prospectus filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the People's Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

---

## [Table of Contents](#)

***If additional remedial measures are imposed on the “big four” PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging such firms’ failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.***

Starting in 2011 the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between US and Chinese law. Specifically, for certain US-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the US regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act against the Chinese accounting firms, (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty was subject to the pending review of the SEC Commissioner. On February 6, 2015, prior to the SEC Commissioner’s scheduled review, the firms reached a settlement with the SEC. Under the settlement, the SEC agreed that its future requests for the production of documents would normally be made to the CSRC. The firms would receive matching requests under Section 106 of the Sarbanes-Oxley Act, and are required to abide by a detailed set of procedures with respect to such requests, which in substance required them to facilitate production via the CSRC. If they fail to meet the specified criteria, the SEC retains the authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against the firm, or in extreme cases, the resumption of the current proceeding against all four “big four” accounting firms.

### **Risks Related to the ADSs and this Offering**

***There has been no public market for our shares or the ADSs prior to this offering, and you may not be able to resell ADSs at or above the price you paid, or at all.***

Prior to this offering, there has been no public market for the ADSs or our ordinary shares underlying the ADSs. If an active public market for the ADSs does not develop after this offering, the market price of the ADSs may decline and the liquidity of the ADSs may decrease significantly. Although we have applied to have the ADSs listed on Nasdaq Global Market, we cannot assure you that a liquid public market for the ADSs will develop.

The initial public offering price for the ADSs will be determined by negotiation between us and the underwriters based upon several factors, and we cannot assure you that the price at which the ADSs are traded after this offering will not decline below the initial public offering price.

In addition, Nasdaq Global Market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, particularly internet-related companies. As a result, investors in our securities may experience a decrease in the value of their ADSs regardless of our operating performance or prospects. In the past, following periods of volatility in the market price of a company’s securities, shareholders have often instituted securities class actions against that company. If we are involved in a class-action lawsuit, it could divert the attention of our senior management and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

***The trading price of the ADSs may be volatile, which could result in substantial losses to you.***

The trading prices of the ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in Hong Kong and China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including Internet companies, online retail and mobile commerce platforms and consumer finance service providers, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011 and in 2015, which may have a material and adverse effect on the trading price of the ADSs.

In addition to the above factors, the price and trading volume of the ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other consumer finance service providers;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the market for consumer finance services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or the ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

***Our proposed dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.***

Our authorized share capital will be divided into Class A ordinary shares and Class B ordinary shares immediately prior to the completion of this offering. Holders of Class A ordinary shares will be entitled to one vote per share, while holders of Class B ordinary shares will be entitled to twenty votes per share. We will issue Class A ordinary shares represented by the ADSs in this offering. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

---

## [Table of Contents](#)

Immediately prior to the completion of this offering, Mr. Leaf Hua Li, our founder, chairman of the board of directors and chief executive officer, and Qiantang River Investment Limited, an existing shareholder of ours will beneficially own all of our issued Class B ordinary shares. These Class B ordinary shares will constitute approximately % of our total issued and outstanding share capital immediately after the completion of this offering and % of the aggregate voting power of our total issued and outstanding share capital immediately after the completion of this offering due to the disparate voting powers associated with our dual-class share structure, assuming the underwriters do not exercise their over-allotment option. As a result of the dual-class share structure and the concentration of ownership, holders of Class B ordinary shares will have considerable influence over matters such as decisions regarding mergers and consolidations, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of the ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for the ADSs and trading volume could decline.***

The trading market for the ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades the ADSs or publishes inaccurate or unfavorable research about our business, the market price for the ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

***As our initial public offering price is substantially higher than our net tangible book value per share, you will experience immediate and substantial dilution.***

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by existing shareholders for their ordinary shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately US\$ per ADS (assuming no exercise of outstanding options to acquire ordinary shares), representing the difference between our pro forma net tangible book value per ADS of US\$ as of , after giving effect to this offering, and the assumed initial public offering price per share of US\$ per ADS (the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus). In addition, you may experience further dilution to the extent that our ordinary shares are issued upon the exercise of share options. Substantially all of the ordinary shares issuable upon the exercise of currently outstanding share options will be issued at a purchase price on a per ADS basis that is less than the initial public offering price per ADS in this offering. See “Dilution” for a more complete description of how the value of your investment in the ADSs will be diluted upon the completion of this offering.]

***Because we do not expect to pay dividends in the foreseeable future after this offering, you must rely on price appreciation of the ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings after this offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. See “Dividend Policy.” Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount

---

## [Table of Contents](#)

recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value after this offering or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs and you may even lose your entire investment in the ADSs.

***Substantial future sales or perceived potential sales of the ADSs in the public market could cause the price of the ADSs to decline.***

Sales of substantial amounts of the ADSs in the public market after the completion of this offering, or the perception that these sales could occur, could adversely affect the market price of the ADSs and could materially impair our future ability to raise capital through equity offerings in the future. Upon completion of this offering, we will have                   ordinary shares outstanding, including                   Class A ordinary shares represented by ADSs and                   Class B ordinary shares, assuming the underwriters do not exercise the over-allotment option. All of the ADSs sold in this offering will be freely tradable without any restriction or further registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, unless held by our “affiliates” as that term is defined in Rule 144 under the Securities Act. All of our shares outstanding prior to this offering are “restricted securities” as defined in Rule 144 and, in the absence of registration, may not be sold other than in accordance with Rule 144 under the Securities Act or another exemption from registration.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the Class A ordinary shares which are represented by your ADSs are voted.***

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of ADSs, you will not have any right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as practicable, to vote the underlying Class A ordinary shares which are represented by your ADSs, in accordance with your instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our post-offering amended and restated memorandum and articles of association which will become effective immediately prior to the completion of this offering, the minimum notice period required for convening a general meeting is 10 days. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the shares underlying your ADSs and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our post-offering memorandum and articles of association that will become effective immediately prior to completion of this offering, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the

---

## [Table of Contents](#)

general meeting or to vote directly. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depository at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying shares represented by your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the shares underlying your ADSs are voted and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depository will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

***You may not receive cash dividends if the depository decides it is impractical to make them available to you.***

The depository will pay cash distributions on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends in the foreseeable future. See "Dividend Policy." To the extent that there is a distribution, the depository has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

***We and the depository are entitled to amend the deposit agreement and to change the rights of ADS holders under the terms of such agreement, and we may terminate the deposit agreement, without the prior consent of the ADS holders.***

We and the depository are entitled to amend the deposit agreement and to change the rights of the ADS holders under the terms of such agreement, without the prior consent of the ADS holders. We and the depository may agree to amend the deposit agreement in any way we decide is necessary or advantageous to us. Amendments may reflect, among other things, operational changes in the ADS program, legal developments affecting ADSs or changes in the terms of our business relationship with the depository. In the event that the terms of an amendment are disadvantageous to ADS holders, ADS holders will only receive 30 days' advance notice of the amendment, and no prior consent of the ADS holders is required under the deposit agreement. Furthermore, we may decide to terminate the ADS facility at any time for any reason. For example, terminations may occur when we decide to list our shares on a non-U.S. securities exchange and determine not to continue to sponsor an ADS facility or when we become the subject of a takeover or a going-private transaction. If the ADS facility will terminate, ADS holders will receive at least 90 days' prior notice, but no prior consent is required from them. Under the circumstances that we decide to make an amendment to the deposit agreement that is

---

## [Table of Contents](#)

disadvantageous to ADS holders or terminate the deposit agreement, the ADS holders may choose to sell their ADSs or surrender their ADSs and become direct holders of the underlying Class A ordinary shares, but will have no right to any compensation whatsoever.

***ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.***

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and/or the depository. If a lawsuit is brought against us and/or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems it expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

---

[Table of Contents](#)

***Certain judgments obtained against us by our shareholders may not be enforceable.***

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this prospectus reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, Hong Kong, China or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China, see “Enforceability of Civil Liabilities.”

***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law (2018 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records, other than the Memorandum and Articles of Association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies, or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our post-offering memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. Currently, we do not plan to rely on home country practice with respect to our corporate governance after we complete this offering. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Companies Law of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders, see “Description of Share Capital—Differences in Corporate Law.”

---

## [Table of Contents](#)

***Our amended and restated memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including Class A ordinary shares represented by the ADSs, at a premium.***

We have adopted an amended and restated memorandum and articles of association that will become effective immediately prior to completion of this offering. Our post-offering memorandum and articles of association will contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of the ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and the ADSs may be materially and adversely affected.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.***

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We will be required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.***

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to the Nasdaq listing standards. However, the Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home

---

## [Table of Contents](#)

country, may differ significantly from the Nasdaq listing standards. Currently, we do not plan to rely on home country practices with respect to our corporate governance after we complete this offering. However, if we choose to follow home country practices in the future, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq listing standards applicable to U.S. domestic issuers.

***We will be a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, can rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.***

Upon the completion of this offering, we will be a “controlled company” as defined under the Nasdaq Stock Market Rules because Mr. Leaf Hua Li, our founder, chairman of the board of directors and chief executive officer, will own more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules. As a result, you may not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

***We have not determined a specific use for a portion of the net proceeds from this offering, and we may use these proceeds in ways with which you may not agree.***

We have not determined a specific use for a portion of the net proceeds of this offering, and our management will have considerable discretion in deciding how to apply these proceeds. You will not have the opportunity to assess whether the proceeds are being used appropriately before you make your investment decision. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. We cannot assure you that the net proceeds will be used in a manner that will improve our results of operations or increase the ADS price, nor that these net proceeds will be placed only in investments that generate income or appreciate in value.

***There can be no assurance that we will not be a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in the ADSs or ordinary shares to significant adverse United States income tax consequences.***

We will be classified as a passive foreign investment company, or PFIC, for any taxable year if either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our VIE (including its subsidiary) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of our VIE (including its subsidiary) for United States federal income tax purposes, and based upon our current and expected income and assets, including goodwill (taking into account the expected proceeds from this offering) and projections as to the market price of the ADSs following the offering, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of the ADSs, fluctuations in the market price of the ADSs may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition and classification of our income and assets. Because there are uncertainties in the application of the relevant rules, it is possible that the IRS may challenge our classification of certain income and assets as non-passive which may result in our being or becoming a PFIC in the current or subsequent years. In addition, the composition of our income and assets will also be affected by how, and how quickly, we use our liquid assets and the cash raised in this offering. If we determine not to deploy

---

## [Table of Contents](#)

significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIE for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. Holder (as defined in “Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds the ADSs or our ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the ADSs or our ordinary shares. For more information see “Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

***We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”***

Upon completion of this offering, we will become a public company and expect to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq Global Market, impose various requirements on the corporate governance practices of public companies. As a company with less than US\$1.07 billion in revenues for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, in the assessment of the emerging growth company’s internal control over financial reporting. The JOBS Act also permits an emerging growth company to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that reflect our current expectations and views of future events. The forward looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” Known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our mission, goals and strategies;
- our future business development, financial conditions and results of operations;
- the trends in, expected growth and the market size of the online and mobile trading and other financial services industry, both in Hong Kong and globally;
- expected changes in our revenues, costs or expenditures;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with users, clients and third-party business partners;
- competition in our industry;
- our proposed use of proceeds;
- relevant government policies and regulations relating to our industry; and
- general economic and business conditions in the markets we have businesses.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations and our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Prospectus Summary—Our Challenges,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Regulation” and other sections in this prospectus. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should read thoroughly this prospectus and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This prospectus contains certain data and information that we obtained from various government and private publications. Although we believe the data and information to be reliable, we have not independently verified the accuracy or completeness of the data and information contained in these publications. Statistical data in these publications also include projections based on a number of assumptions. The online brokerage and related industries may not grow at the rate projected by market data, or at all. Failure of these markets to grow at the projected rate may have a material and adverse effect on our business and the market price of the ADSs. In addition, the rapidly evolving nature of the online brokerage industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any

---

[Table of Contents](#)

one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we refer to in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US\$            million, or approximately US\$            million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. These estimates are based upon an assumed initial public offering price of US\$            per ADS, which is the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus. A US\$1.00 increase (decrease) in the assumed initial public offering price of US\$            per ADS would increase (decrease) the net proceeds to us from this offering by US\$            , assuming the number of ADSs offered by us, as set forth on the front cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

The primary purposes of this offering are to create a public market for our shares in the form of ADSs for the benefit of all shareholders, retain talented employees by providing them with equity incentives and obtain additional capital. We plan to use the net proceeds of this offering for general corporate purposes, including research and development, working capital needs, and increased regulatory capital requirements of the HK SFC and regulatory authorities in other jurisdictions as a result of our business expansion.

The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, and the rate of growth, if any, of our business, and our plans and business conditions. The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus. See “Risk Factors—Risks Related to the ADSs and This Offering—We have not determined a specific use for a portion of the net proceeds from this offering, and we may use these proceeds in ways with which you may not agree.”

Pending any use of proceeds described above, we plan to invest the net proceeds from this offering in short-term, interest-bearing, debt instruments or demand deposits.

In using the net proceeds of this offering, we are permitted under PRC laws and regulations as an offshore holding company to provide funding to our PRC subsidiaries only through loans or capital contributions and to our VIE only through loans, subject to satisfaction of applicable government registration and approval requirements. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. See “Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries and our VIE and its subsidiaries.”

## **DIVIDEND POLICY**

Our board of directors has discretion on whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future after this offering. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in Hong Kong and China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in China—Regulations on Dividend Distribution.”

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying the ADSs to the depository, as the registered holder of such ordinary shares, and the depository then will pay such amounts to the ADS holders in proportion to ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Description of American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2018:

- on an actual basis;
- on a pro forma basis to reflect (i) the automatic conversion and redesignation of all of our issued and outstanding preferred shares into ordinary shares on a one-for-one basis immediately upon the completion of this offering; (ii) the re-designation of                    ordinary shares into Class B ordinary shares on a one-for-one basis immediately prior to the completion of this offering; and (iii) the redesignation of all of the remaining ordinary shares into Class A ordinary shares on a one-for-one basis immediately prior to the completion of this offering; and
- on a pro forma as adjusted basis to reflect (i) the automatic conversion and redesignation of all of our issued and outstanding preferred shares into ordinary shares on a one-for-one basis immediately upon the completion of this offering; (ii) the re-designation of ordinary shares into Class B ordinary shares on a one-for-one basis immediately prior to the completion of this offering; and (iii) the redesignation of all of the remaining ordinary shares into Class A ordinary shares on a one-for-one basis immediately prior to the completion of this offering; and (iv) the issuance and sale of                    Class A ordinary shares in the form of ADSs by us in this offering at an assumed initial public offering price of US\$                    per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, assuming the underwriters do not exercise the over-allotment option.

Unaudited pro forma basic and diluted net loss per ordinary share reflects the effect of the conversion of preferred shares as follows, as if the conversion occurred as of the beginning of the period or the original date of issuance, if later.

[Table of Contents](#)

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	As of September 30, 2018				Pro Forma	
	Actual		Pro Forma		As Adjusted(1)	
	(in thousands, except for share and per share data)					
	HKS	US\$	HKS	US\$	HKS	US\$
<b>Mezzanine equity</b>						
Series A preferred shares (US\$0.00001 par value; 125,000,000 shares authorized, issued and outstanding on an actual basis, and none outstanding on a pro forma or a pro forma as adjusted basis)	67,250	8,593	—	—		
Series A-1 preferred shares (US\$0.00001 par value; 23,437,500 shares authorized, issued and outstanding on an actual basis, and none outstanding on a pro forma or a pro forma as adjusted basis)	14,411	1,841	—	—		
Series B preferred shares (US\$0.00001 par value; 88,423,500 shares authorized, issued and outstanding on an actual basis, and none outstanding on a pro forma or a pro forma as adjusted basis)	279,102	35,664	—	—		
Series C preferred shares (US\$0.00001 par value; 128,844,812 shares authorized, issued and outstanding on an actual basis, and none outstanding on a pro forma or a pro forma as adjusted basis)	767,101	98,021	—	—		
Series C-1 preferred shares (US\$0.00001 par value; 12,225,282 shares authorized, issued and outstanding on an actual basis, and none outstanding on a pro forma or a pro forma as adjusted basis)	105,870	13,529	—	—		
<b>Total mezzanine equity</b>	<b>1,233,734</b>	<b>157,648</b>	<b>—</b>	<b>—</b>		
<b>Shareholders’ deficit:</b>						
Ordinary shares (US\$0.00001 par value; 4,622,068,906 and 4,622,068,906 shares authorized as of December 31, 2017 and September 30, 2018, respectively; 403,750,000 and 403,750,000 shares issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; No shares issued and outstanding on a pro-forma basis and on a pro-forma adjusted basis as of September 30, 2018)	31	4	—	—		
Class A ordinary shares (US\$0.00001 par value; none outstanding on an actual basis, 237,129,043 issued and outstanding on a pro forma basis, and issued and outstanding on a pro forma as adjusted basis)	—	—	15	2		
Class B ordinary shares (US\$0.00001 par value; none outstanding on an actual basis, 544,522,051 issued and outstanding on a pro forma basis, and issued and outstanding on a pro forma as adjusted basis)	—	—	46	6		
Additional paid-in capital(2)	—	—	1,233,704	157,644		
Accumulated other comprehensive loss	(6,952)	(888)	(6,952)	(888)		
Accumulated deficit	(173,556)	(22,177)	(173,556)	(22,177)		
<b>Total shareholders’ (deficit)(2)/equity</b>	<b>(180,477)</b>	<b>(23,061)</b>	<b>1,053,257</b>	<b>134,587</b>		
<b>Total liabilities, mezzanine equity and shareholders’ (deficit)/equity</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>		

Notes:

- (1) The pro forma as adjusted information discussed above is illustrative only. Our additional paid-in capital, total shareholders’ equity and total capitalization following the completion of this offering are subject to adjustment based on the actual initial public offering price and other terms of this offering determined at pricing.
- (2) Assuming the number of ADSs offered by us as set forth on the cover page of this prospectus remains the same, and after deduction of underwriting discounts and commissions and the estimated offering expenses payable by us, a US\$1.00 increase (decrease) in the assumed initial public offering price of US\$ per share, the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) each of additional paid-in capital, total shareholders’ equity, total equity and total capitalization by US\$ million.

## DILUTION

If you invest in the ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per ordinary share is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares on an as-converted basis.

Our net tangible book value as of September 30, 2018 was approximately US\$            million, or US\$            per ordinary share on an as-converted basis as of that date and US\$            per ADS. Net tangible book value represents the amount of our total consolidated tangible assets, less the amount of our total consolidated liabilities. Dilution is determined by subtracting net tangible book value per ordinary share on an as-converted basis, after giving effect to the additional proceeds we will receive from this offering, from the assumed initial public offering price of US\$            per Class A ordinary share, which is the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus adjusted to reflect the ADS-to-ordinary share ratio, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Because the Class A ordinary shares and Class B ordinary shares have the same dividend and other rights, except for voting and conversion rights, the dilution is presented based on all issued and outstanding ordinary shares, including Class A ordinary shares and Class B ordinary shares.

Without taking into account any other changes in net tangible book value after September 30, 2018, other than to give effect to our sale of the ADSs offered in this offering at the assumed initial public offering price of US\$            per ADS, the midpoint of the estimated range of the initial public offering price, after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of September 30, 2018 would have been US\$            million, or US\$            per ordinary share and US\$            per ADS. This represents an immediate increase in net tangible book value of US\$            per ordinary share and US\$            per ADS to the existing shareholders and an immediate dilution in net tangible book value of US\$            per ordinary share and US\$            per ADS to investors purchasing ADSs in this offering. The following table illustrates such dilution:

	<u>Per Ordinary Share</u>	<u>Per ADS</u>
Assumed initial public offering price	US\$	US\$
Net tangible book value as of September 30, 2018	US\$	US\$
Pro forma net tangible book value after giving effect to the conversion of our preferred shares	US\$	US\$
Pro forma as adjusted net tangible book value after giving effect to the conversion of our preferred shares and this offering	US\$	US\$
Amount of dilution in net tangible book value to new investors in this offering	US\$	US\$

A US\$1.00 increase (decrease) in the assumed initial public offering price of US\$            per ADS would increase (decrease) our pro forma as adjusted net tangible book value after giving effect to this offering by US\$            , the pro forma as adjusted net tangible book value per ordinary share and per ADS after giving effect to this offering by US\$            per ordinary share and US\$            per ADS, and the dilution in pro forma as adjusted net tangible book value per ordinary share and per ADS to new investors in this offering by US\$            per ordinary share and US\$            per ADS, assuming no change to the number of ADSs offered by us as set forth on the front cover page of this prospectus, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The following table summarizes, on a pro forma as adjusted basis as of September 30, 2018, the differences between existing shareholders and the new investors with respect to the number of ordinary shares (in the form of ADSs or shares) purchased from us, the total consideration paid and the average price per ordinary share and per

---

**Table of Contents**

ADS paid before deducting the underwriting discounts and commissions and estimated offering expenses payable by us. The total number of ordinary shares does not include ordinary shares underlying the ADSs issuable upon the exercise of the over-allotment option granted to the underwriters.

	<u>Ordinary Shares Purchased</u>		<u>Total Consideration</u>		<u>Average</u>	<u>Average</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Price Per</u>	<u>Price Per</u>
					<u>Share</u>	<u>ADS</u>
Existing shareholders			US\$	%	US\$	US\$
New investors			US\$	%	US\$	US\$
<b>Total</b>			<b>US\$</b>	<b>100.0%</b>		

The pro forma as adjusted information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of the ADSs and other terms of this offering determined at pricing.

The discussion and tables above assume no exercise of any outstanding share options outstanding as of the date of this prospectus. As of the date of this prospectus, there are 121,250,465 ordinary shares issuable upon exercise of outstanding share options at a nominal exercise price. To the extent that any of these options are exercised, there will be further dilution to new investors.

## EXCHANGE RATE INFORMATION

Our reporting currency is the Hong Kong dollars because our business is mainly conducted in Hong Kong and most of our revenues are denominated in Hong Kong dollars. This prospectus contains translations of Hong Kong dollars and Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Hong Kong dollars into U.S. dollars and the conversion of Renminbi into U.S. dollars in this prospectus are based on the exchange rates set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Unless otherwise noted, all translations from Hong Kong dollars to U.S. dollars and from U.S. dollars to Hong Kong dollars in this prospectus were made at a rate of HK\$7.8259 to US\$1.00, and all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this prospectus were made at a rate of RMB6.8680 to US\$1.00, the rates in effect as of September 28, 2018.

We make no representation that any Hong Kong dollars or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Hong Kong dollars, as the case may be, at any particular rate, the rates stated below, or at all. The Hong Kong dollar is freely convertible into other currencies (including U.S. dollar). Since October 7, 1983, the Hong Kong dollar has been officially linked to U.S. dollar at the rate of HK\$7.80 to US\$1.00. The link is supported by an agreement between Hong Kong's three bank note-issuing banks and the Hong Kong government pursuant to which bank notes issued by such banks are backed by certificates of indebtedness purchased by such banks from the Hong Kong Government Exchange Fund with U.S. dollar at the fixed exchange rate of HK\$7.80 to US\$1.00 and held as cover for the bank notes issue. When bank notes are withdrawn from circulation, the issuing bank surrenders certificates of indebtedness to the Hong Kong Government Exchange Fund and is paid the equivalent amount in U.S. dollars at the fixed rate of exchange. Hong Kong's three bank note-issuing banks are The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited. In May 2005, the Hong Kong Monetary Authority broadened the link from the original rate of HK\$7.80 per US\$1.00 to a rate range of HK\$7.75 to HK\$7.85 per US\$1.00. No assurance can be given that the Hong Kong government will maintain the link at HK\$7.75 to HK\$7.85 per US\$1.00 or at all.

In addition, we make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

On December 21, 2018, the exchange rate for Hong Kong dollars was HK\$7.8321 to US\$1.00 and the exchange rate for Renminbi was RMB6.9048 to US\$1.00.

## [Table of Contents](#)

The following table sets forth information concerning exchange rates between the Hong Kong dollar and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you.

<u>Period</u>	<u>Certified Exchange Rate</u>			
	<u>Period End</u>	<u>Average(1)</u>	<u>Low</u>	<u>High</u>
		<u>(HK\$ per US\$1.00)</u>		
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7545	7.7669	7.7495
2015	7.7507	7.7524	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
2018				
June	7.8463	7.8471	7.8492	7.8452
July	7.8484	7.8477	7.8493	7.8439
August	7.8486	7.8492	7.8499	7.8482
September	7.8259	7.8364	7.8496	7.8080
October	7.8393	7.8375	7.8433	7.8260
November	7.8244	7.8286	7.8365	7.8205
December (through December 21)	7.8321	7.8123	7.8321	7.8043

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you.

<u>Period</u>	<u>Certified Exchange Rate</u>			
	<u>Period End</u>	<u>Average(1)</u>	<u>Low</u>	<u>High</u>
		<u>(RMB per US\$1.00)</u>		
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018				
June	6.6171	6.4651	6.6235	6.3850
July	6.8038	6.7164	6.8102	6.6123
August	6.8300	6.8453	6.9330	6.8018
September	6.8680	6.8551	6.8880	6.8270
October	6.9737	6.9191	6.9737	6.8680
November	6.9558	6.9367	6.9558	6.8894
December (through December 21)	6.9048	6.8818	6.9077	6.8343

Source: Federal Reserve Statistical Release

Note:

- (1) Annual averages are calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

## ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability. We are incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands exempted company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws than the United States and provides less protection for investors. In addition, Cayman Islands companies do not have standing to sue before the federal courts of the United States.

Substantially all of our assets are located outside the United States. In addition, most of our directors and officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce judgments obtained in U.S. courts against us or them, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

We have appointed Puglisi & Associates, located at 850 Library Avenue, Suite 204, Newark, Delaware 19711, as our agent to receive service of process with respect to any action brought against us in the U.S. District Court for the Southern District of New York in connection with this offering under the federal securities laws of the United States or the securities laws of any State in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York in connection with this offering under the securities laws of the State of New York.

Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (1) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers that are predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state in the United States, or (2) entertain original actions brought in the Cayman Islands against us or our directors or officers that are predicated upon the federal securities laws of the United States or the securities laws of any state in the United States.

Maples and Calder (Hong Kong) LLP has informed us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) is given by a foreign court of competent jurisdiction, (ii) imposes on the judgment debtor (a liability to pay a liquidated sum for which the judgment has been given), (iii) is final, (iv) is not in respect of taxes, a fine or a penalty; and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

CM Law Firm, our counsel as to PRC law, has advised us that there is uncertainty as to whether the courts of China would (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (2) entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

---

## [Table of Contents](#)

CM Law Firm has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other form of reciprocity with the United States or the Cayman Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, courts in China will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or in the Cayman Islands. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against us in the PRC, if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit.

In addition, it will be difficult for U.S. shareholders to originate actions against us in China in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for U.S. shareholders, by virtue only of holding the ADSs or our ordinary shares, to establish a connection to China for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

Judgment of United States courts will not be directly enforced in Hong Kong. There are currently no treaties or other arrangements providing for reciprocal enforcement of foreign judgments between Hong Kong and the United States. However, subject to certain conditions, including but not limited to when the judgment is for a liquidated amount in a civil matter and not in respect of taxes, fines, penalties or similar charges, the judgment is final and conclusive and has not been stayed or satisfied in full, the proceedings in which the judgment was obtained were not contrary to natural justice and the enforcement of the judgment is not contrary to public policy of Hong Kong, Hong Kong courts may accept such judgment obtained from a United States court as a debt due under the rules of common law enforcement. However, a separate legal action for debt must be commenced in Hong Kong in order to recover such debt from the judgment debtor.

## CORPORATE HISTORY AND STRUCTURE

### Corporate History

We commenced our operations in December 2007 through Shenzhen Futu Network Technology Co., Ltd., or Shenzhen Futu, a limited liability company established under the laws of the PRC, to provide internet technology and software development services.

Futu Securities International (Hong Kong) Limited, or Futu International Hong Kong, was incorporated under the laws of Hong Kong by Mr. Leaf Hua Li, our founder, chairman and chief executive officer in April 2012. In October 2012, Futu International Hong Kong became a securities dealer registered with the HK SFC by obtaining a Type 1 License for dealing in securities. Futu International Hong Kong obtained a Type 2 License for dealing in future contracts, a Type 4 License for advising on securities, a Type 9 License for asset management and a Type 5 License for advising on future contracts from the HK SFC subsequently in July 2013, June 2015, July 2015 and August 2018, respectively. In October 2014, Mr. Li transferred all of Futu International Hong Kong's shares to Futu Holdings Limited, or Futu Holdings, our holding company. Futu International Hong Kong established two wholly-owned PRC subsidiaries, Shenzhen Shidai Futu Consulting Limited, or Shenzhen Shidai, and Shenzhen Qianhai Fuzhitu Investment Consulting Management Limited, or Shenzhen Qianhai, in May 2015 and August 2015, respectively. As of the date of this prospectus, we conduct most aspects of our operations through Futu International Hong Kong in Hong Kong.

In April 2014, Futu Holdings was incorporated under the laws of the Cayman Islands as our holding company. In May 2014, Futu Securities (Hong Kong) Limited, or Futu Hong Kong, was incorporated under the laws of in Hong Kong as a wholly-owned subsidiary of Futu Holdings. As of the date of this prospectus, Futu Hong Kong has not engaged in any operating activities. Futu Hong Kong established two wholly-owned PRC subsidiaries, Shensi Network Technology (Beijing) Co., Ltd., or Shensi Beijing, and Futu Network Technology (Shenzhen) Co., Ltd., or Futu Network, in September 2014 and October 2015, respectively, which, together with Shenzhen Shidai and Shenzhen Qianhai, are referred to as our PRC WFOEs in this prospectus. Due to restrictions imposed by PRC laws and regulations on foreign ownership of companies that engage in internet and other related business, Shensi Beijing later entered into a series of contractual arrangements with Shenzhen Futu, which we refer to as our VIE in this prospectus, and its shareholders. For more details, see "Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders." As a result of our direct ownership in our PRC WFOEs and the VIE contractual arrangements, we are regarded as the primary beneficiary of our VIE. We treated our VIE and its subsidiary as our consolidated affiliated entities under U.S. GAAP, and have consolidated the financial results of these entities in our consolidated financial statements in accordance with U.S. GAAP.

We operate our business mainly through Futu International Hong Kong, which is a HK SFC-regulated entity that holds the relevant licenses related to our securities brokerage business. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated revenues of HK\$83.2 million, HK\$305.6 million and HK\$576.7 million, accounting for 95.6%, 98.0% and 98.7% of our total revenues, respectively, from Futu International Hong Kong, whose assets amounted to HK\$4,425.8 million, HK\$10,748.7 million and HK\$15,517.2 million, accounting for 98.0%, 98.4%, 97.8% of our total assets as of the end of the same periods, respectively, taking intercompany transaction offset into consideration. We also conduct research and development activities in China through Futu Network and our VIE. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we generated revenues of HK\$2.5 million, HK\$4.6 million and HK\$1.7 million, accounting for 2.9%, 1.5% and 0.3% of our total revenues, respectively, from Futu Network and our VIE, whose assets amounted to HK\$45.2 million, HK\$73.8 million and HK\$88.1 million, accounting for 1.0%, 0.7% and 0.6% of our total assets as of the end of the same periods, respectively, taking intercompany transaction offset into consideration. As of the date of this prospectus, we have not engaged in any operating activities through our other subsidiaries in China.

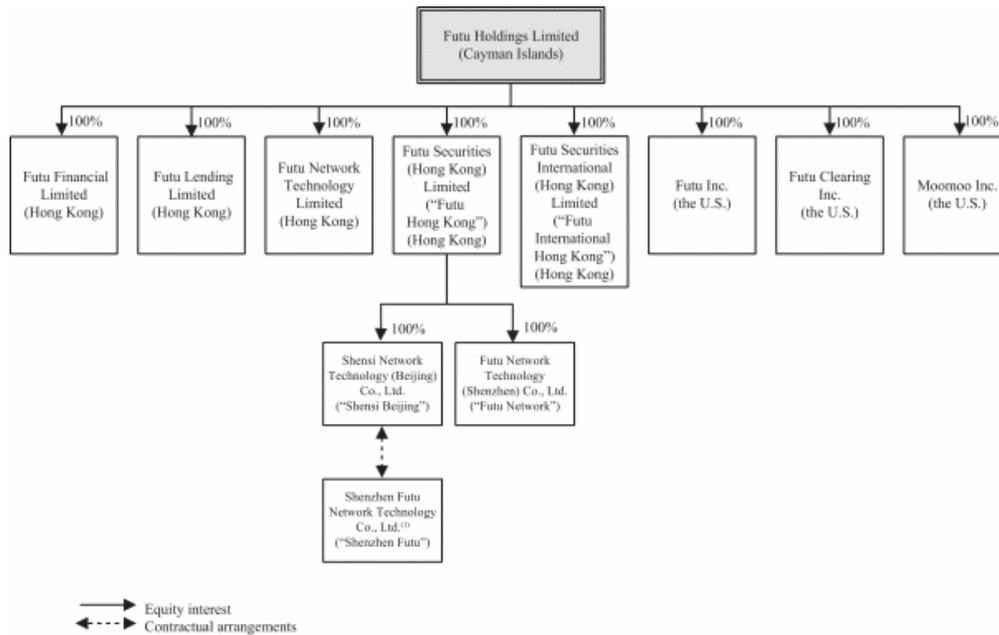
We strategically established Futu Financial Limited, Futu Lending Limited and Futu Network Technology Limited, each a wholly-owned subsidiary of our company in Hong Kong, in April 2017, April 2017 and August

## Table of Contents

2015, respectively, for the purpose of our potential business expansion in the future. As of the date of this prospectus, these subsidiaries have not engaged in any active operating activities. In the past, compared to our total revenues and total assets, the revenues and assets of these subsidiaries were nominal.

In addition, we established Futu Inc., Futu Clearing Inc. and Moomoo Inc., each a wholly-owned subsidiary of our company in the United States, in December 2015, August 2018 and March 2018, respectively, in order to improve our ability to offer investing services in overseas markets. As of the date of this prospectus, these subsidiaries are still at their initial stages of development and have not yet engaged in any business operations. We have not generated any revenue from these subsidiaries and their assets were nominal compared to the total assets of our company.

The following diagram illustrates our corporate structure, including our significant subsidiaries and our VIE, as of the date of this prospectus:



### Note:

(1) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of our company and hold 85% and 15% equity interests in Shenzhen Futu, respectively. Mr. Li is the founder, chairman and chief executive officer of our company and Ms. Li is Mr. Li's spouse.

### Contractual Arrangements with Our VIE and Its Shareholders

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned PRC subsidiary, Shensi Beijing, our VIE, Shenzhen Futu, and the shareholders of Shenzhen Futu. These contractual arrangements enable us to (i) exercise effective control over our VIE; (ii) receive substantially all of the economic benefits of our VIE; and (iii) have an exclusive option to purchase all or part of the equity interests in and/or assets of our VIE when and to the extent permitted by PRC laws.

***Agreements that provide us effective control over our VIE***

***Shareholders' Voting Rights Proxy Agreement.*** Pursuant to the shareholders' voting rights proxy agreement entered into in October 2014, and amended and restated in May 2015 and further amended and restated in September 2018, by and among Shensi Beijing, Shenzhen Futu and each of the shareholders of Shenzhen Futu, each shareholder of Shenzhen Futu irrevocably authorized Shensi Beijing to exercise such shareholder's rights in Shenzhen Futu, including without limitation, the power to participate in and vote at shareholder's meetings, the power to nominate and appoint the directors, senior management, and other shareholders' voting rights permitted by the Articles of Association of Shenzhen Futu. The shareholders' voting rights proxy agreement remains irrevocable and continuously valid from the date of execution until the expiration of the business term of Shensi Beijing and can be renewed upon request by Shensi Beijing.

***Business Operation Agreement.*** Pursuant to the business operation agreement entered into in October 2014, and amended and restated in May 2015 and further amended and restated in September 2018 by and among Shensi Beijing, Shenzhen Futu and each of the shareholders of Shenzhen Futu, Shenzhen Futu and its shareholders undertake that without Shensi Beijing's prior written consent, Shenzhen Futu shall not enter into any transactions that may have a material effect on Shenzhen Futu's assets, business, personnel, obligations, rights or business operations. Shenzhen Futu and its shareholders shall elect directors nominated by Shensi Beijing and such directors shall nominate officers designated by Shensi Beijing. The business operation agreement will remain effective until the end of Shensi Beijing's business term, which will be extended if Shensi Beijing's business term is extended or as required by Shensi Beijing.

***Equity Interest Pledge Agreement.*** Pursuant to the equity interest pledge agreement entered into in October 2014, and amended and restated in May 2015 and further amended and restated in September 2018 by and among Shensi Beijing, Shenzhen Futu and each of the shareholders of Shenzhen Futu, each shareholder of Shenzhen Futu agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Shensi Beijing. The equity interest pledge agreements remain effective until the latter of the full payment of all secured debt under the equity interest pledge agreement and Shenzhen Futu and its shareholders discharge all their obligations under the contractual arrangements. As of the date of this prospectus, each shareholder of Shenzhen Futu is planning to pledge his or her equity interest in Shenzhen Futu to Shensi Beijing.

***Agreements that allow us to receive economic benefits from our VIE***

***Exclusive Technology Consulting and Services Agreement.*** Under the exclusive technology and consulting and services agreement between Shensi Beijing and Shenzhen Futu in October 2014, and amended and restated in May 2015 and further amended and restated in September 2018, Shensi Beijing has the exclusive right to provide Shenzhen Futu with technology consulting and services related to, among other things, technology research and development, technology application and implementation, maintenance of software and hardware. Without Shensi Beijing's written consent, Shenzhen Futu shall not accept any technology consulting and services covered by this agreement from any third party. Shenzhen Futu agrees to pay a service fee at an amount equivalent to all of its net profit to Shensi Beijing. Unless otherwise terminated in accordance with the terms of this agreement or otherwise agreed by Shensi Beijing, this agreement will remain effective until the expiration of Shensi Beijing's business term, and will be renewed if Shensi Beijing's business term is extended.

***Agreements that provide us with the option to purchase the equity interests in our VIE***

***Exclusive Option Agreement.*** Pursuant to the exclusive option agreement entered into in October 2014, and amended and restated in May 2015 and further amended and restated in September 2018, by and among Shensi Beijing, Shenzhen Futu and each of the shareholders of Shenzhen Futu, each shareholder of Shenzhen Futu has irrevocably granted Shensi Beijing an exclusive option, to the extent permitted by PRC laws, to purchase, or have

---

## [Table of Contents](#)

its designated person or persons to purchase, at its discretion, all or part of the shareholder's equity interests in Shenzhen Futu. Unless PRC laws and/or regulations require valuation of the equity interests, the purchase price shall be RMB1.00 or the lowest price permitted by the applicable PRC laws, whoever is higher. Each shareholder of Shenzhen Futu undertakes that, without the prior written consent of Shensi Beijing, he or she will not, among other things, (i) create any pledge or encumbrance on his or her equity interests in Shenzhen Futu, (ii) transfer or otherwise dispose of his or her equity interests in Shenzhen Futu, (iii) change Shenzhen Futu's registered capital, (iv) amend Shenzhen Futu's articles of association, (v) liquidate or dissolve Shenzhen Futu, or (vi) distribute dividends to the shareholders of Shenzhen Futu. In addition, Shenzhen Futu undertakes that, without the prior written consent of Shensi Beijing, it will not, among other things, dispose of Shenzhen Futu's material assets, provide any loans to any third parties, enter into any material contract with a value of more than RMB500,000, or create any pledge or encumbrance on any of its assets, or transfer or otherwise dispose of its material assets. Unless otherwise terminated by Shensi Beijing, this agreement will remain effective until the expiration of Shensi Beijing's business term, and will be renewed if Shensi Beijing's business term is extended.

In the opinion of CM Law Firm, our PRC legal counsel:

- the ownership structures of Shensi Beijing and Shenzhen Futu, both currently and immediately after giving effect to this offering, will not result in any violation of applicable PRC laws or regulations currently in effect; and
- the contractual arrangements among Shensi Beijing, Shenzhen Futu and the shareholders of Shenzhen Futu governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect.

However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to or otherwise different from the above opinion of our PRC legal counsel. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in our businesses, we could be subject to severe penalties including being prohibited from continuing operations in China. See "Risk Factors—Risks Related to Our Business and Industry—We rely on contractual arrangements with our VIE and its shareholders to operate a limited part of our business in China, which may not be as effective as direct ownership in providing operational control and otherwise have a material adverse effect as to our business" and "Risk Factors—Risks Related to Doing Business in China—If the PRC government deems that the contractual arrangements in relation to our VIE do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated statement of comprehensive loss data for the years ended December 31, 2016 and 2017, selected consolidated balance sheet data as of December 31, 2016 and 2017 and selected consolidated cash flow data for the years ended December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The following selected consolidated statements of comprehensive (loss)/income data for the nine months ended September 30, 2017 and 2018, selected consolidated balance sheet data as of September 30, 2018 and selected consolidated cash flow data for the nine months ended September 30, 2017 and 2018 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this Selected Consolidated Financial Data section together with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

	For the Year ended			For the Nine Months Ended		
	December 31,			September 30,		
	2016	2017	2017	2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
(in thousands, except for share and per share data)						
<b>Selected Consolidated Statements of Comprehensive (Loss)/Income Data :</b>						
<b>Revenues</b>						
Brokerage commission and handling charge income	74,498	184,918	23,629	114,427	294,662	37,652
Interest income	5,795	105,872	13,528	51,998	257,737	32,934
Other income	6,722	20,873	2,667	11,942	31,768	4,059
<b>Total revenues</b>	<b>87,015</b>	<b>311,663</b>	<b>39,824</b>	<b>178,367</b>	<b>584,167</b>	<b>74,645</b>
<b>Costs<sup>(1)</sup></b>						
Brokerage commission and handling charge expenses	(18,730)	(36,777)	(4,699)	(22,554)	(59,614)	(7,618)
Interest expenses	(3,459)	(19,879)	(2,540)	(6,930)	(73,176)	(9,350)
Processing and servicing costs	(22,880)	(52,446)	(6,702)	(39,490)	(52,549)	(6,715)
<b>Total costs</b>	<b>(45,069)</b>	<b>(109,102)</b>	<b>(13,941)</b>	<b>(68,974)</b>	<b>(185,339)</b>	<b>(23,683)</b>
<b>Total gross profit</b>	<b>41,946</b>	<b>202,561</b>	<b>25,883</b>	<b>109,393</b>	<b>398,828</b>	<b>50,962</b>
<b>Operating expenses</b>						
Research and development expenses <sup>(1)</sup>	(61,624)	(95,526)	(12,206)	(69,406)	(105,657)	(13,501)
Selling and marketing expenses <sup>(1)</sup>	(59,198)	(41,446)	(5,296)	(30,243)	(73,671)	(9,414)
General and administrative expenses <sup>(1)</sup>	(31,786)	(57,293)	(7,321)	(42,059)	(73,268)	(9,362)
<b>Total operating expenses</b>	<b>(152,608)</b>	<b>(194,265)</b>	<b>(24,823)</b>	<b>(141,708)</b>	<b>(252,596)</b>	<b>(32,277)</b>
Others, net	(1,085)	(4,918)	(628)	(2,975)	(6,012)	(768)
<b>(Loss)/income before income tax benefit/(expense)</b>	<b>(111,747)</b>	<b>3,378</b>	<b>432</b>	<b>(35,290)</b>	<b>140,220</b>	<b>17,917</b>
Income tax benefit/(expense)	13,276	(11,480)	(1,467)	(2,702)	(39,882)	(5,096)
<b>Net (loss)/income</b>	<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>	<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
Preferred shares redemption value accretion	(17,929)	(47,715)	(6,097)	(31,012)	(50,258)	(6,422)
Income allocation to participating preferred shareholders	—	—	—	—	(24,213)	(3,094)
<b>Net (loss)/income attributable to ordinary shareholder of the Company</b>	<b>(116,400)</b>	<b>(55,817)</b>	<b>(7,132)</b>	<b>(69,004)</b>	<b>25,867</b>	<b>3,305</b>
<b>Net (loss)/income</b>	<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>	<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>

[Table of Contents](#)

	For the Year ended December 31,			For the Nine Months Ended September 30,		
	2016	2017	2017	2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
(in thousands, except for share and per share data)						
<b>Other comprehensive (loss)/income, net of tax</b>						
Foreign currency translation adjustment	(4,142)	3,366	430	6,616	(4,899)	(626)
<b>Total comprehensive (loss)/income</b>	<b>(102,613)</b>	<b>(4,736)</b>	<b>(605)</b>	<b>(31,376)</b>	<b>95,439</b>	<b>12,195</b>
<b>Net (loss)/income per share attributable to ordinary shareholder of the Company</b>						
Basic	(0.29)	(0.14)	(0.02)	(0.17)	0.06	0.008
Diluted	(0.29)	(0.14)	(0.02)	(0.17)	0.05	0.006
<b>Weighted average number of ordinary shares used in computing net (loss)/income per share</b>						
Basic	403,750,000	403,750,000	403,750,000	403,750,000	403,750,000	403,750,000
Diluted	403,750,000	403,750,000	403,750,000	403,750,000	508,682,862	508,682,862

Note:

(1) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
(in thousands)						
Selling and marketing expenses	261	161	21	151	30	4
Research and development expenses	8,335	8,854	1,131	6,682	6,648	850
General and administrative expenses	559	754	96	569	565	72
<b>Total</b>	<b>9,155</b>	<b>9,769</b>	<b>1,248</b>	<b>7,402</b>	<b>7,243</b>	<b>926</b>

	As of December 31,			Pro Forma December 31, (Unaudited)		As of September 30,		Pro Forma September 30, (Unaudited)	
	2016	2017	2017	2017	2017	2018	2018	2018	2018
	HK\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$
(in thousands)									

**Selected Consolidated Balance Sheet Data:**

	As of December 31,			Pro Forma December 31, (Unaudited)		As of September 30,		Pro Forma September 30, (Unaudited)	
	2016	2017	2017	2017	2017	2018	2018	2018	2018
	HK\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$
(in thousands)									
<b>Assets</b>									
Cash and cash equivalents	179,016	375,263	47,951	375,263	47,951	272,371	34,804	272,371	34,804
Cash held on behalf of clients	3,345,172	7,176,579	917,029	7,176,579	917,029	11,004,151	1,406,120	11,004,151	1,406,120
Available-for-sale financial securities	2,236	—	—	—	—	17,046	2,178	17,046	2,178
Amounts due from related parties	1,006	6,541	836	6,541	836	11,270	1,440	11,270	1,440
Loans and advances	126,163	2,907,967	371,582	2,907,967	371,582	3,800,814	485,671	3,800,814	485,671
Receivables:									
Clients	792,480	218,960	27,979	218,960	27,979	160,967	20,568	160,967	20,568
Brokers	9,918	106,078	13,555	106,078	13,555	486,208	62,128	486,208	62,128
Clearing organization	9,614	55,892	7,142	55,892	7,142	5,600	716	5,600	716
Interest	1,070	7,041	900	7,041	900	32,267	4,124	32,267	4,124
Prepaid assets	4,932	3,646	466	3,646	466	11,496	1,469	11,496	1,469
Other assets	45,876	65,918	8,422	65,918	8,422	64,949	8,300	64,949	8,300
<b>Total assets</b>	<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>
<b>Liabilities</b>									
Amounts due to related parties	6,479	14,687	1,877	14,687	1,877	4,185	535	4,185	535

[Table of Contents](#)

	As of December 31,			Pro Forma December 31, (Unaudited)		As of September 30,		Pro Forma September 30, (Unaudited)	
	2016	2017	2017	2017	2017	2018	2018	2018	2018
	HK\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$
	(in thousands)								
Payables:									
Clients	4,107,782	7,340,823	938,016	7,340,823	938,016	11,433,670	1,461,004	11,433,670	1,461,004
Brokers	31,446	929,692	118,797	929,692	118,797	1,362,343	174,081	1,362,343	174,081
Clearing organization	10,441	82,878	10,590	82,878	10,590	5,771	737	5,771	737
Interest	2,481	2,066	264	2,066	264	5,510	705	5,510	705
Short-term borrowings	161,179	1,542,448	197,095	1,542,448	197,095	1,907,837	243,785	1,907,837	243,785
Convertible notes	32,030	—	—	—	—	—	—	—	—
Accrued expenses and other liabilities	26,689	60,717	7,758	60,717	7,758	94,566	12,804	94,566	12,804
<b>Total liabilities</b>	<b>4,378,527</b>	<b>9,973,311</b>	<b>1,274,397</b>	<b>9,973,311</b>	<b>1,274,397</b>	<b>14,813,882</b>	<b>1,892,931</b>	<b>14,813,882</b>	<b>1,892,931</b>
Total mezzanine equity	329,175	1,183,475	151,226	—	—	1,233,734	157,648	—	—
<b>Total shareholders' (deficit)/equity</b>	<b>(190,219)</b>	<b>(232,901)</b>	<b>(29,761)</b>	<b>950,574</b>	<b>121,465</b>	<b>(180,477)</b>	<b>(23,061)</b>	<b>1,053,257</b>	<b>134,587</b>
<b>Total liabilities, mezzanine equity and shareholders' (deficit)/equity</b>	<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>

	For the Year Ended December 31				For the Nine Months Ended September 30,		
	2016	2017		2017	2018		
	HK\$	HK\$	US\$	HK\$	HK\$	US\$	
	(in thousands)						
<b>Selected Consolidated Cash Flow Data:</b>							
Net cash generated from operating activities		1,397,692	1,855,328	237,075	1,520,504	3,395,805	433,920
Net cash used in investing activities		(6,230)	(5,145)	(657)	(4,440)	(30,716)	(3,925)
Net cash generated from financing activities		147,594	2,155,846	275,476	1,116,206	360,941	46,121
Effect of exchange rate changes on cash, cash equivalents and restricted cash		77	21,625	2,763	18,067	(1,350)	(173)
Net increase in cash, cash equivalents and restricted cash		1,539,133	4,027,654	514,657	2,650,337	3,724,680	475,943
Cash, cash equivalents and restricted cash at beginning of the year		1,985,055	3,524,188	450,323	3,524,188	7,551,842	964,981
Cash, cash equivalents and restricted cash at end of the year		3,524,188	7,551,842	964,980	6,174,525	11,276,522	1,440,924

**Non-GAAP Measures**

We use adjusted net income, a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes. Adjusted net income represents net income excluding share-based compensation expenses, and such adjustment has no impacts on income tax.

We believe that adjusted net income helps identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net income. We believe that adjusted net income provides useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

---

[Table of Contents](#)

Adjusted net income should not be considered in isolation or construed as an alternative to net income or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted net income presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of our adjusted net (loss)/income to net (loss)/income for the periods indicated.

	For the Year ended			For the Nine Months ended		
	December 31,			September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Net (loss)/income	(98,471)	(8,102)	(1,035)	(37,992)	100,338	12,821
Add: share-based compensation expenses	9,155	9,769	1,248	7,402	7,243	926
Adjusted net (loss)/income	<u>(89,316)</u>	<u>1,667</u>	<u>213</u>	<u>(30,590)</u>	<u>107,581</u>	<u>13,747</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties about our business and operations. Our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those we describe under "Risk Factors" and elsewhere in this prospectus. See "Special Note Regarding Forward-Looking Statements."*

### Overview

We are an advanced technology company transforming the investing experience by offering a fully digitized brokerage platform. Technology permeates every part of our business, allowing us to offer a redefined user experience built upon an agile, stable, scalable and secure platform. We primarily serve the emerging affluent Chinese population, pursuing a massive opportunity to facilitate a once-in-a-generation shift in the wealth management industry and build a digital gateway into broader financial services. As of September 30, 2018, we had an attractive and rapidly growing user base of 5.3 million, over 457,000 registered clients, defined as users who have opened trading accounts with us, and over 124,000 paying clients, defined as registered clients who have assets in their trading accounts. For the six months ended June 30, 2018, we brokered HK\$478.2 billion (US\$61.1 billion) in client trades, underlying a brokerage revenue base which ranked fourth among Hong Kong online retail brokers according to Oliver Wyman. We brokered HK\$678.0 billion (US\$86.6 billion) in client trades for the nine months ended September 30, 2018.

We launched our business on the premise that no one should be precluded from investing on the basis of prohibitive transaction costs or market inexperience. We thus designed a platform around an elegant user experience integrating clear and relevant market data, social collaboration and best-in-class trade execution, finding that by delivering our vision through a purpose-built technology infrastructure we could disrupt traditional investing conventions. Over the last eight years we have continuously enhanced our technology and built a comprehensive, user-oriented and cloud-based platform that is fully-licensed to conduct securities brokerage business in Hong Kong. This serves as a foundation from which to execute our growth strategies with an operating efficiency that allows us to offer commission rates that are approximately one-fifth of the average rate offered by the leading players in Hong Kong, according to Oliver Wyman, creating a massive barrier to entry. As of September 30, 2018, approximately 66% of our workforce was dedicated to research and development, reflecting the degree to which technological excellence is entrenched in every aspect of our business.

We provide investing services through our proprietary digital platform, *Futu NiuNiu*, a highly integrated application accessible through any mobile device, tablet or desktop. Our primary fee-generating services include trade execution and margin financing which allow our clients to trade securities, such as stocks, warrants, options and ETFs, across different markets. We surround our trading and margin financing services and enhance our user and client experience with market data and news, research, as well as powerful analytical tools, providing our clients with a data rich foundation to simplify the investing decision-making process.

We have achieved significant growth in our user and client base, client assets, trading volumes and revenues. Our paying clients increased by 125.8% from 35,456 as of December 31, 2016 to 80,057 as of December 31, 2017, and increased by 98.4% from 62,899 as of September 30, 2017 to 124,809 as of September 30, 2018. Our growing paying client base allowed us to increase client assets and trading volumes by 186.0% and 164.4%, respectively, in 2017 as compared to 2016, and by 58.9% and 101.2%, respectively, for the nine months ended September 30, 2018 as compared to the same period of 2017. This drove revenues of HK\$311.7 million (US\$39.8 million) in 2017, representing a 258.2% increase from HK\$87.0 million in 2016,

---

## [Table of Contents](#)

and of HK\$584.2 million (US\$74.6 million) for the nine months ended September 30, 2018, representing a 227.5% increase from HK\$178.4 million for the same period of 2017. We were able to decrease our net loss from HK\$98.5 million in 2016 to HK\$8.1 million (US\$1.0 million) in 2017. We had net income of HK\$100.3 million (US\$12.8 million) for the nine months ended September 30, 2018 compared to net loss of HK\$38.0 million for the same period of 2017. Our adjusted net income, which excludes share-based compensation expenses, reached HK\$1.7 million (US\$0.2 million) in 2017, compared to an adjusted net loss of HK\$89.3 million in 2016. For the nine months ended September 30, 2018, our adjusted net income reached HK\$107.6 million (US\$13.7 million), compared to an adjusted net loss of HK\$30.6 million for the same period of 2017. See “Summary Consolidated Financial and Operating Data—Non-GAAP Measures” for a reconciliation of adjusted net (loss)/income to net (loss)/income.

### **Key Factors Affecting Our Results of Operations**

Our business and results of operations are influenced by general factors affecting the online brokerage industry in Hong Kong and China, including the overall economic and market conditions, level of per capita disposable income in Hong Kong and China, and the growth of the online brokerage and related services markets. In particular, as our securities brokerage business depends heavily on trading volume, our financial performance is highly dependent on the market conditions in which our business operates. Changes in market conditions can have a significant impact on investor sentiment and trading volume, resulting in fluctuation in brokerage commission and fee income. Our margin financing business is subject to influences from market factors such as market liquidity, interest rate as well as investor sentiment.

In addition, our business and results of operations are also affected by factors driving online brokerage in Hong Kong and China, such as the growing number of retail investors having interests and needs in investing securities in global capital markets, the usage and penetration rate of the internet and mobile internet, the changing investor preferences with respect to trading and investment platforms and the competitive environment, governmental policies and regulatory environment, such as any capital control measures that impose restrictions on cross-border transfer. Unfavorable changes in any of these general factors could negatively affect demand for our services and materially and adversely affect our results of operations.

While our business is influenced by general factors affecting our industry, our results of operations are more directly affected by certain company specific factors, including:

#### ***Number of clients, their trading activities and commission rate***

Growth in the trading volume on our platform is the key driver of our revenue growth, which is in turn driven by the number of paying clients, average client asset balance and turnover of trading volume over client assets. The trading volume on our platform increased by 164.4% from HK\$195.9 billion in 2016 to HK\$517.9 billion (US\$66.2 billion) in 2017 and by 101.2% from HK\$337.0 billion for the nine months ended September 30, 2017 to HK\$678.0 billion (US\$86.6 billion) for the same period of 2018. The increase was primarily driven by the increase in the number of our paying clients, as well as increase in the average client asset balance. The number of our paying clients increased from 35,456 as of December 31, 2016 to 80,057 as of December 31, 2017, and further increased to 124,809 as of September 30, 2018. Meanwhile, we had average paying client asset balance of HK\$437,626, HK\$554,379 (US\$70,839) and HK\$434,576 (US\$55,530) as of December 31, 2016 and 2017 and September 30, 2018, respectively. As a result, our total client asset balance increased from HK\$15.5 billion as of December 31, 2016 to HK\$44.4 billion (US\$5.7 billion) as of December 31, 2017, and further increased to HK\$54.2 billion (US\$6.9 billion) as of September 30, 2018, which have also contributed to the significant increase in our interest income during these periods. The average client asset balance in turn can be affected by a number of factors, including level of per capita disposable income as well as the engagement and stickiness of our clients. We have strived to increase the engagement and stickiness of our clients and enhance the competitiveness and attractiveness of our platform by offering superior investing experience, insightful market intelligence and social connectivity. We plan to continue to grow our business

---

## [Table of Contents](#)

organically by attracting and retaining clients and increasing average client asset balance, and to improve the turnover of trading volume over client asset by adding new products and services on our platform and providing high-quality, reliable and convenient online brokerage and ancillary services to investors at low costs. Our brokerage commission and handling charge income are affected by the trading volume as well as commission rate we charge.

### ***Our margin financing balance and interest spread***

To provide our investors with comprehensive investment services, we offer margin financing and securities lending services on our platform. Since then, benefiting from our high-growth client base, increasingly attractive products and broader financing partners network, our margin financing business has grown rapidly. Interest income derived from our margin financing and securities lending businesses as a percentage of revenues increased from 2.0% in 2016 to 21.0% in 2017, and increased from 16.7% for the nine months ended September 30, 2017 to 30.1% for the same period of 2018. As of September 30, 2018, the margin financing balance amounted to HK\$3,600.3 million (US\$460.1 million), compared to HK\$1,881.4 million as of September 30, 2017. The increase in margin financing balance has been primarily driven by the increase in the number of margin financing clients. In the nine months ended September 30, 2018, we had provided margin financing service for securities listed on the Hong Kong Stock Exchange and the major stock exchanges in the U.S. to 31,308 and 16,692 clients, respectively, and we had provided securities lending services for securities listed on the major stock exchanges in the U.S. to 6,127 clients. The margin financing balance is also affected by factors including client asset balance, margin financing balance as a percentage of client assets, and our ability to continue to secure funding from third-party lenders.

The net interest income from our margin financing business is affected by our margin financing balance, as well as the interest spread we earn. We have benefitted from the increase in client demand for margin financing services, which in turn strengthened our bargaining power against third-party lenders and allowed us to optimize interest expenses. To continue to expand our margin financing business, we plan to deepen our cooperation with third-party lenders as well as allocate our own capital to increase the funds available. To effectively manage our capital, we have established liquidity policies to support the growth of our margin financing business while ensuring sufficient capital reserve is maintained to meet operational needs and comply with applicable regulatory requirements. In addition, once we become a publicly listed company, we will be perceived as a stronger debtor by lenders and potentially obtain a better credit rating from rating agencies, which will further diversify our funding sources and improve our funding terms.

We have also been developing and offering innovative solutions for our clients who wish to finance their securities purchases, such as real-time, cross-market, securities-backed financing and enhanced leverage for IPO subscriptions. Our revenue growth will be affected by our ability to effectively execute these initiatives and increase our margin financing balance and interest spread.

### ***Operating leverage of our platform***

Our results of operations depend on our ability to manage our costs and expenses. We expect our costs and expenses to continue to increase as we grow our business and attract more clients to our platform. However, we believe our platform has significant operating leverage and enables us to realize cost savings structurally. We have built a secure and scalable brokerage platform that is fully digitized and supports the full transaction lifecycle from the front-end to the back-office through our proprietary cloud-based technology, which in turn allows us to reduce our operating expenses. We believe our proprietary and modularized technology infrastructure has been fully funded, enabling us to bring in new products and enter new markets with moderate investment and marginal cost. As a result, the costs associated with the operation of our platform as well as our operating expenses do not increase in line with our revenues as we do not require a proportional increase in the size of our workforce to support our growth.

---

## [Table of Contents](#)

In addition, by leveraging the client insights we generate from our large client base, we are able to attract corporate clients to utilize our distribution solution and public relations and brand promotion services, which in turn generates strong demand for our brokerage and margin financing services from our clients. The scale, demographics and depth of engagement of our client base also translates to high lifetime values. When matched against our efficient client acquisition, a function of our online marketing and promotional activities, word-of-mouth referrals and our corporate services, we are able to achieve a payback period of less than six months since the beginning of 2017. As our business further grows in scale, we believe our massive scale, coupled with the network effects, will allow us to acquire clients more cost-effectively and benefit from substantial economies of scale.

### ***Investment in technology and talent***

Our technology is critical for us to retain and attract clients. Over the last eight years, we have made significant investments into our technology platform, which has evolved into a highly-automated, multi-product, multi-market, closed-loop technology infrastructure that drives every function of our business including trading, risk management, clearing, market data, news feeds and social functions. We will continue to make significant investments in research and development and technology to enhance our platform to address the diverse needs of our clients and improve operating efficiency. We intend to focus on developing innovative applications, products and services aimed at providing more convenience to clients and improving our user experience, service quality and system efficiency. In addition, there is a strong demand in China's internet industry for talented and experienced personnel. We must recruit, retain and motivate talented employees while controlling our personnel-related expenses, including share-based compensation expenses.

### ***Our ability to broaden service offerings***

Our results of operations are also affected by our ability to invest in and develop new service offerings and further penetrate our client base. We currently derive a substantial portion of our revenues from our securities brokerage business, and as a result, our profitability depends largely on the performance of this business. While we expect our brokerage commission income to increase and continue to be a major source of our revenues in the future, we also expect to increase the revenue contribution from other businesses with relatively higher profit margins, such as our margin financing and securities lending business. We also intend to further broaden our financial services footprint and launch new products and services, fixed income funds and futures. We believe that our comprehensive offering of financial products and services and our strong technology capability in developing new products and services will allow us to capture new market opportunities and respond to changes in the market, client demand and client preferences to remain competitive.

## Table of Contents

### Key Components of Results of Operations

#### Revenues

We generate revenues primarily from our online brokerage and margin financing services. The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods presented:

	For the Year Ended December 31,					For the Nine Months Ended September 30,				
	2016		2017			2017		2018		
	HKS	%	HKS	US\$	%	HKS	%	HKS	US\$	%
	(in thousands, except for percentages)									
<b>Revenues:</b>										
Brokerage commission and handling charge income	74,498	85.6	184,918	23,629	59.3	114,427	64.2	294,662	37,652	50.5
Interest income	5,795	6.7	105,872	13,528	34.0	51,998	29.1	257,737	32,934	44.1
Other income	6,722	7.7	20,873	2,667	6.7	11,942	6.7	31,768	4,059	5.4
<b>Total revenues</b>	<b>87,015</b>	<b>100.0</b>	<b>311,663</b>	<b>39,824</b>	<b>100.0</b>	<b>178,367</b>	<b>100.0</b>	<b>584,167</b>	<b>74,645</b>	<b>100.0</b>

#### Brokerage commission and handling charge income

Brokerage commission income primarily consists of commissions and execution fees from our clients for whom we act as executing and clearing brokers. We generate commissions and execution fees on securities brokerage by trading equities and equity-linked derivatives on behalf of our clients. Handling charge income primarily consists of fees from settlement services and handling services for subscription and dividend collection.

#### Interest income

Interest income primarily consists of interest income from margin financing and securities lending services, interest income from bank deposit and interest income from IPO financing by arranging the financing for our clients in connection with their subscriptions in initial public offerings.

#### Other income

Other income primarily consists of income from enterprise public relations services, underwriting fee income, IPO subscription service charge income, currency exchange service income from clients, income from market data service and client referral income from brokers. We generate income from enterprise public relations by providing institutional clients with public relations services, including distributing company information and news and providing communication channels with investors. We generate underwriting fee income in our investment banking business primarily by providing equity underwriting to corporate issuers. We generate IPO subscription service charge from provision of new share subscription services in relation to IPOs in the Hong Kong capital market. We generate currency exchange service income from providing currency exchange services to our paying clients. We generate our income from market data service and client referral income primarily by providing fee-based market data services to users and clients and referring clients to licensed A-share brokers in China.

## Table of Contents

### Costs

The following table sets forth the components of our costs by amounts and percentages of costs for the periods presented:

	For the Year Ended December 31,					For the Nine Months Ended September 30,				
	2016		2017			2017		2018		
	HKS	%	HKS	US\$	%	HKS	%	HKS	US\$	%
	(in thousands, except for percentages)									
<b>Costs:</b>										
Brokerage commission and handling charge expenses	18,730	41.5	36,777	4,699	33.7	22,554	32.7	59,614	7,618	32.2
Interest expenses	3,459	7.7	19,879	2,540	18.2	6,930	10.0	73,176	9,350	39.5
Processing and servicing costs	22,880	50.8	52,446	6,702	48.1	39,490	57.3	52,549	6,715	28.3
<b>Total costs</b>	<b>45,069</b>	<b>100.0</b>	<b>109,102</b>	<b>13,941</b>	<b>100.0</b>	<b>68,974</b>	<b>100.0</b>	<b>185,339</b>	<b>23,683</b>	<b>100.0</b>

#### Brokerage commission and handling charge expenses

Brokerage commission and handling charge expenses consist of fees charged by executing brokers in the U.S. as we transact with them, expenses charged by stock exchanges or executing brokers for our use of their clearing and settlement systems and expenses charged by commercial banks or stock exchanges for providing clearing and settlement services in connection with IPO subscriptions.

#### Interest expenses

Interest expenses primarily consist of interest expenses of borrowings from commercial banks, other licensed financial institutions and other parties to fund our margin financing and IPO financing businesses.

#### Processing and servicing costs

Processing and servicing costs consist of market data and information fees, data transmission fees, cloud service fees and SMS service fees paid to stock exchanges and data and other service providers.

### Operating expenses

The following table sets forth the components of our operating expenses by amounts and percentages of operating expenses for the periods presented:

	For the Year Ended December 31,					For the Nine Months Ended September 30,				
	2016		2017			2017		2018		
	HKS	%	HKS	US\$	%	HKS	%	HKS	US\$	%
	(in thousands, except for percentages)									
<b>Operating expenses:</b>										
Research and development expenses	61,624	40.4	95,526	12,206	49.2	69,406	49.0	105,657	13,501	41.8
Selling and marketing expenses	59,198	38.8	41,446	5,296	21.3	30,243	21.3	73,671	9,414	29.2
General and administrative expenses	31,786	20.8	57,293	7,321	29.5	42,059	29.7	73,268	9,362	29.0
<b>Total operating expenses</b>	<b>152,608</b>	<b>100.0</b>	<b>194,265</b>	<b>24,823</b>	<b>100.0</b>	<b>141,708</b>	<b>100.0</b>	<b>252,596</b>	<b>32,277</b>	<b>100.0</b>

---

## [Table of Contents](#)

*Research and development expenses.* Research and development expenses consist of expenses related to developing service platforms, including website, mobile apps and other products, as well as payroll and welfare, rental expenses and other related expenses for our research and development professionals.

*Selling and marketing expenses.* Selling and marketing expenses consist primarily of advertising and promotion costs, payroll, rental and related expenses for selling and marketing personnel. Advertising costs primarily consist of costs of online advertising and offline promotional events.

*General and administrative expenses.* General and administrative expenses consist of payroll, rental, and related expenses for employees involved in general corporate functions, including senior management, finance, legal and human resources, costs associated with use of facilities and equipment, such as rental and other general corporate related expenses.

### **Taxation**

#### *Cayman Islands*

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

#### *Hong Kong*

Our subsidiaries incorporated in Hong Kong, including Futu Securities (Hong Kong) Limited, Futu Financial Limited, Futu Lending Limited, Futu Network Technology Limited and Futu Securities International (Hong Kong) Limited, are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiary to us are not subject to any Hong Kong withholding tax.

#### *PRC*

Generally, our PRC subsidiaries, VIE and its subsidiary are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

We are subject to value-added tax at a rate of 6% for the income arising from providing financial technology services to our clients in China. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential tax rate of 5% is denied based on the subsequent review of the application package by the relevant tax authority.

## Table of Contents

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Risk Factors—Risks Related to Doing Business in China—We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.”

### Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our revenues for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. The results of operations in any period are not necessarily indicative of our future trends.

	For the Year Ended December 31,						For the Nine Months Ended September 30,					
	2016		2017		2017		2018		2018			
	HK\$	%	HK\$	US\$	%	HK\$	%	HK\$	US\$	%		
	(in thousands, except for percentages)											
<b>Revenues</b>												
Brokerage commission and handling charge income	74,498	85.6	184,918	23,629	59.3	114,427	64.2	294,662	37,652	50.5		
Interest income	5,795	6.7	105,872	13,528	34.0	51,998	29.1	257,737	32,934	44.1		
Other income	6,722	7.7	20,873	2,667	6.7	11,942	6.7	31,768	4,059	5.4		
<b>Total revenues</b>	<b>87,015</b>	<b>100.0</b>	<b>311,663</b>	<b>39,824</b>	<b>100.0</b>	<b>178,367</b>	<b>100.0</b>	<b>584,167</b>	<b>74,645</b>	<b>100.0</b>		
<b>Costs<sup>(1)</sup></b>												
Brokerage commission and handling charge expenses	(18,730)	(21.5)	(36,777)	(4,699)	(11.8)	(22,554)	(12.6)	(59,614)	(7,618)	(10.2)		
Interest expenses	(3,459)	(4.0)	(19,879)	(2,540)	(6.4)	(6,930)	(3.9)	(73,176)	(9,350)	(12.5)		
Processing and servicing costs	(22,880)	(26.3)	(52,446)	(6,702)	(16.8)	(39,490)	(22.2)	(52,549)	(6,715)	(9.0)		
<b>Total costs</b>	<b>(45,069)</b>	<b>(51.8)</b>	<b>(109,102)</b>	<b>(13,941)</b>	<b>(35.0)</b>	<b>(68,974)</b>	<b>(38.7)</b>	<b>(185,339)</b>	<b>(23,683)</b>	<b>(31.7)</b>		
<b>Total gross profit</b>	<b>41,946</b>	<b>48.2</b>	<b>202,561</b>	<b>25,883</b>	<b>65.0</b>	<b>109,393</b>	<b>61.3</b>	<b>398,828</b>	<b>50,962</b>	<b>68.3</b>		
<b>Operating expenses</b>												
Research and development expenses <sup>(1)</sup>	(61,624)	(70.8)	(95,526)	(12,206)	(30.7)	(69,406)	(38.8)	(105,657)	(13,501)	(18.1)		
Selling and marketing expenses <sup>(1)</sup>	(59,198)	(68.0)	(41,446)	(5,296)	(13.3)	(30,243)	(17.0)	(73,671)	(9,414)	(12.6)		
General and administrative expenses <sup>(1)</sup>	(31,786)	(36.6)	(57,293)	(7,321)	(18.3)	(42,059)	(23.6)	(73,268)	(9,362)	(12.5)		
<b>Total operating expenses</b>	<b>(152,608)</b>	<b>(175.4)</b>	<b>(194,265)</b>	<b>(24,823)</b>	<b>(62.3)</b>	<b>(141,708)</b>	<b>(79.4)</b>	<b>(252,596)</b>	<b>(32,277)</b>	<b>(43.2)</b>		
Others, net	(1,085)	(1.2)	(4,918)	(628)	(1.6)	(2,975)	(1.7)	(6,012)	(768)	(1.0)		
<b>(Loss)/income before income tax</b>	<b>(111,747)</b>	<b>(128.4)</b>	<b>3,378</b>	<b>432</b>	<b>1.1</b>	<b>(35,290)</b>	<b>(19.8)</b>	<b>140,220</b>	<b>17,917</b>	<b>24.1</b>		
Income tax benefit/(expense)	13,276	15.3	(11,480)	(1,467)	(3.7)	(2,702)	(1.5)	(39,882)	(5,096)	(6.8)		
<b>Net (loss)/income</b>	<b>(98,471)</b>	<b>(113.1)</b>	<b>(8,102)</b>	<b>(1,035)</b>	<b>(2.6)</b>	<b>(37,992)</b>	<b>(21.3)</b>	<b>100,338</b>	<b>12,821</b>	<b>17.3</b>		

Note:

(1) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Selling and marketing expenses	261	161	21	151	30	4
Research and development expenses	8,335	8,854	1,131	6,682	6,648	850
General and administrative expenses	559	754	96	569	565	72
<b>Total</b>	<b>9,155</b>	<b>9,769</b>	<b>1,248</b>	<b>7,402</b>	<b>7,243</b>	<b>926</b>

## Table of Contents

### Non-GAAP Measures

We use adjusted net income, a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes. Adjusted net income represents net income excluding share-based compensation expenses, and such adjustment has no impacts on income tax.

We believe that adjusted net income helps identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net income. We believe that adjusted net income provides useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

Adjusted net income should not be considered in isolation or construed as an alternative to net income or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted net income presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of our adjusted net (loss)/income to net (loss)/income for the periods indicated.

	For the Year ended December 31,			For the Nine Months ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Net (loss)/income	(98,471)	(8,102)	(1,035)	(37,992)	100,338	12,821
Add: share-based compensation expenses	9,155	9,769	1,248	7,402	7,243	926
Adjusted net (loss)/income	<u>(89,316)</u>	<u>1,667</u>	<u>213</u>	<u>(30,590)</u>	<u>107,581</u>	<u>13,747</u>

### Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

#### Revenues

Our revenues, which consist of brokerage commission and handling charge income, interest income and other income, significantly increased by 227.5% from HK\$178.4 million for the nine months ended September 30, 2017 to HK\$584.2 million (US\$74.6 million) for the nine months ended September 30, 2018. This increase was primarily attributable to the increases in our brokerage commission and handling charge income and interest income.

*Brokerage commission and handling charge income.* Brokerage commission and handling charge income increased by 157.5% from HK\$114.4 million for the nine months ended September 30, 2017 to HK\$294.7 million (US\$37.7 million) for the nine months ended September 30, 2018, primarily attributable to the increase in trading volume from HK\$337.0 billion for the nine months ended September 30, 2017 to HK\$678.0 billion (US\$86.6 billion) for the nine months ended September 30, 2018. The increase in trading volume was primarily attributable to the increase in the number of paying clients from 62,899 as of September 30, 2017 to 124,809 as of September 30, 2018.

*Interest income.* Interest income increased significantly from HK\$52.0 million for the nine months ended September 30, 2017 to HK\$257.7 million (US\$32.9 million) for the nine months ended September 30, 2018, primarily attributable to the increase in the margin balance from HK\$1,881.4 million as of September 30, 2017 to

---

## [Table of Contents](#)

HK\$3,600.3 million (US\$460.1 million) as of September 30, 2018, as well as the increase in balance of client deposits and the improved return on such balance driven by (i) better capital management and (ii) an increase in benchmark interest rate in the U.S. and Hong Kong.

*Other income.* Other income increased significantly by 166.0% from HK\$11.9 million for the nine months ended September 30, 2017 to HK\$31.8 million (US\$4.1 million) for the nine months ended September 30, 2018, primarily attributable to the increase in IPO subscription service charge income, underwriting fee income and enterprise public relations service charge income.

### **Costs**

Our costs, which consist of brokerage commission and handling charge expenses, interest expenses and processing and servicing costs, increased by 168.7% from HK\$69.0 million for the nine months ended September 30, 2017 to HK\$185.3 million (US\$23.7 million) for the nine months ended September 30, 2018 as all components of costs increased in line with our business growth.

*Brokerage commission and handling charge expenses.* Brokerage commission and handling charge expenses increased by 164.3% from HK\$22.6 million for the nine months ended September 30, 2017 to HK\$59.6 million (US\$7.6 million) for the nine months ended September 30, 2018, primarily attributable to the increase in trading volume on our platform. The brokerage commission and handling charge expenses increased in line with our brokerage commission income.

*Interest expenses.* Interest expenses increased by 955.9% from HK\$6.9 million for the nine months ended September 30, 2017 to HK\$73.2 million (US\$9.4 million) for the nine months ended September 30, 2018, primarily attributable to the increase of our loan balance from HK\$0.5 billion as of September 30, 2017 to HK\$1.9 billion (US\$243.8 million) as of September 30, 2018, which was primarily due to the growing capital needs associated with the rapid growth of our margin financing business, and the overall increased interest rates of our borrowings from commercial banks and other financial institutions.

*Processing and servicing costs.* Processing and servicing costs increased by 33.1% from HK\$39.5 million for the nine months ended September 30, 2017 to HK\$52.5 million (US\$6.7 million) for the nine months ended September 30, 2018, primarily attributable to the increase in the market information and data fees from HK\$28.8 million for the nine months ended September 30, 2017 to HK\$33.9 million (US\$4.3 million) for the nine months ended September 30, 2018 to upgrade our market data service.

### **Gross profit**

As a result of the foregoing, our total gross profit significantly increased by 264.6% from HK\$109.4 million for the nine months ended September 30, 2017 to HK\$398.8 million (US\$51.0 million) for the nine months ended September 30, 2018. Our gross profit margin increased from 61.3% for the nine months ended September 30, 2017 to 68.3% for the nine months ended September 30, 2018, primarily attributable to the decrease in processing and servicing costs and brokerage commission and handling charge expenses as percentages of our total revenues.

### **Operating expenses**

Our total operating expenses increased by 78.3% from HK\$141.7 million for the nine months ended September 30, 2017 to HK\$252.6 million (US\$32.3 million) for the nine months ended September 30, 2018 as research and development expenses, selling and marketing expenses and general and administrative expenses increased due to our business growth.

*Research and development expenses.* Our research and development expenses increased from HK\$69.4 million for the nine months ended September 30, 2017 to HK\$105.7 million (US\$13.5 million) for the

---

## [Table of Contents](#)

nine months ended September 30, 2018, primarily due to an increase in headcount for our research and development function to support our business growth and an increase in average compensation in line with the market trend.

*Selling and marketing expenses.* Our selling and marketing expenses increased from HK\$30.2 million for the nine months ended September 30, 2017 to HK\$73.7 million (US\$9.4 million) for the nine months ended September 30, 2018, primarily due to increased user acquisition expenses and increased expenses associated with our branding and marketing activities.

*General and administrative expenses.* Our general and administrative expenses increased from HK\$42.1 million for the nine months ended September 30, 2017 to HK\$73.3 million (US\$9.4 million) for the nine months ended September 30, 2018. The increase was primarily due to an increase in headcount for our general and administrative personnel and an increase in average compensation in line with the market trend.

### ***Others, net***

Our others, net, which primarily consists of non-operating income and expenses and foreign currency gains and losses, increased from HK\$3.0 million for the nine months ended September 30, 2017 to HK\$6.0 million (US\$0.8 million) for the nine months ended September 30, 2018. This increase was primarily due to the increase of accrued surcharges of the underpaid social security insurance.

### ***(Loss)/income before income tax***

As a result of the foregoing, we had income before income tax of HK\$140.2 million (US\$17.9 million) for the nine months ended September 30, 2018, compared to loss before income tax of HK\$35.3 million for the nine months ended September 30, 2017.

### ***Income tax benefit/(expense)***

We had income tax expense of HK\$39.9 million (US\$5.1 million) for the nine months ended September 30, 2018, compared to income tax expense of HK\$2.7 million for the nine months ended September 30, 2017, primarily due to an increase of our taxable income during such period.

### ***Net loss***

As a result of the foregoing, we had net income of HK\$100.3 million (US\$12.8 million) for the nine months ended September 30, 2018, compared to net loss of HK\$38.0 million for the same period of 2017.

## ***Year ended December 31, 2017 compared to year ended December 31, 2016***

### ***Revenues***

Our revenues, which consist of brokerage commission and handling charge income, interest income and other income, significantly increased by 258.2% from HK\$87.0 million in 2016 to HK\$311.7 million (US\$39.8 million) in 2017. This increase was primarily due to the increases in our brokerage commission and handling charge income and interest income.

*Brokerage commission and handling charge income.* Brokerage commission and handling charge income increased by 148.2% from HK\$74.5 million in 2016 to HK\$184.9 million (US\$23.6 million) in 2017, primarily attributable to the increase in trading volume from HK\$195.9 billion in 2016 to HK\$517.9 billion (US\$66.2 billion) in 2017. The increase in trading volume was primarily attributable to the increase in the number of paying clients from 35,456 as of December 31, 2016 to 80,057 as of December 31, 2017 and the increase in the average paying client asset balance from HK\$437,626 as of December 31, 2016 to HK\$554,379 (US\$70,839) as of December 31, 2017. Our commission rate remained generally stable during 2016 and 2017.

---

## [Table of Contents](#)

*Interest income.* Interest income increased significantly from HK\$5.8 million in 2016 to HK\$105.9 million (US\$13.5 million) in 2017, primarily attributable to the increase in the margin balance from HK\$126.2 million in 2016 to HK\$2,865.0 million (US\$366.1 million) in 2017, as well as the increase in balance of client deposits and the improved return on such balance driven by (i) better capital management and (ii) an increase in benchmark interest rate in the U.S. and Hong Kong.

*Other income.* Other income increased significantly by 210.5% from HK\$6.7 million in 2016 to HK\$20.9 million (US\$2.7 million) in 2017, primarily attributable to the increase in IPO subscription service charge income, enterprise public relations service charge income and underwriting fee income as a result of the expansion in our corporate services.

### **Costs**

Our costs, which consist of brokerage commission and handling charge expenses, interest expenses and processing and servicing costs, increased by 142.1% from HK\$45.1 million in 2016 to HK\$109.1 million (US\$13.9 million) in 2017 as all components of costs increased due to our business growth.

*Brokerage commission and handling charge expenses.* Brokerage commission and handling charge expenses increased by 96.4% from HK\$18.7 million in 2016 to HK\$36.8 million (US\$4.7 million) in 2017, primarily attributable to the increase in trading volume on our platform. The brokerage commission and handling charge expenses did not increase in line with our brokerage commission income due to the tiered pricing policy adopted by clearing organizations and authorized financial institutions.

*Interest expenses.* Interest expenses increased by 474.7% from HK\$3.5 million in 2016 to HK\$19.9 million (US\$2.5 million) in 2017, primarily attributable to the increase of our loan balance from HK\$161.2 million in 2016 to HK\$1.5 billion (US\$197.1 million) in 2017, which was primarily attributable to the growing capital needs associated with the rapid growth of our margin financing business, and the increase in effective interest rate due to an increase in benchmark interest rates in the U.S. and Hong Kong.

*Processing and servicing costs.* Processing and servicing costs increased by 129.2% from HK\$22.9 million in 2016 to HK\$52.4 million (US\$6.7 million) in 2017, primarily attributable to the increase in the market information and data fees from HK\$14.5 million in 2016 to HK\$37.5 million (US\$4.8 million) in 2017 to upgrade our market data service.

### **Gross profit**

As a result of the foregoing, our total gross profit significantly increased by 382.9% from HK\$41.9 million in 2016 to HK\$202.6 million (US\$25.9 million) in 2017. Our gross profit margin increased from 48.2% in 2016 to 65.0% in 2017, primarily attributable to the decrease in brokerage commission and handling charge expenses and processing and servicing costs as percentages of our total revenues.

### **Operating expenses**

Our total operating expenses increased by 27.3% from HK\$152.6 million in 2016 to HK\$194.3 million (US\$24.8 million) in 2017 as research and development expenses and general and administrative expenses increased due to our business growth. The increase was partially offset by the decrease in selling and marketing expenses attributable to improvement in our marketing efficiency.

*Research and development expenses.* Our research and development expenses increased from HK\$61.6 million in 2016 to HK\$95.5 million (US\$12.2 million) in 2017, primarily due to an increase in headcount for our research and development function to support our business growth and an increase in average compensation in line with the market trend.

---

## [Table of Contents](#)

*Selling and marketing expenses.* Our selling and marketing expenses decreased from HK\$59.2 million in 2016 to HK\$41.4 million (US\$5.3 million) in 2017, primarily attributable to the improvement of our marketing and user acquisition efficiency.

*General and administrative expenses.* Our general and administrative expenses increased from HK\$31.8 million in 2016 to HK\$57.3 million (US\$7.3 million) in 2017. The increase was primarily attributable to an increase in headcount for our general and administrative personnel and an increase in average compensation in line with the market trend.

### ***Others, net***

Our others, net, which primarily consists of non-operating income and expenses and foreign currency gains and losses, increased from HK\$1.1 million in 2016 to HK\$4.9 million (US\$0.6 million) in 2017. This increase was primarily due to the increase in non-operating cost incurred in relation to transaction terminations.

### ***(Loss)/income before income tax***

As a result of the foregoing, we had income before income tax of HK\$3.4 million (US\$0.4 million) in 2017, compared to loss before income tax of HK\$111.7 million in 2016.

### ***Income tax benefit/(expense)***

We had income tax expense of HK\$11.5 million (US\$1.5 million) in 2017, compared to income tax benefit of HK\$13.3 million in 2016, primarily attributable to recognition of deferred tax assets based on the evaluation of our future taxable income.

### ***Net loss***

As a result of the foregoing, we incurred net loss of HK\$8.1 million (US\$1.0 million) in 2017, compared to net loss of HK\$98.5 million in 2016. Excluding share-based compensation expenses, our adjusted net income reached HK\$1.7 million (US\$0.2 million) in 2017, compared to an adjusted net loss of HK\$89.3 million in 2016. See “Summary Consolidated Financial and Operating Data—Non-GAAP Measures” for a reconciliation of adjusted net (loss)/income to net (loss)/income.

[Table of Contents](#)

**Selected Quarterly Results of Operations**

The following table sets forth our unaudited consolidated quarterly results of operations for each of the seven quarters from January 1, 2017 to September 30, 2018. You should read the following table in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. We have prepared this unaudited condensed consolidated quarterly financial data on the same basis as we have prepared our audited consolidated financial statements. The unaudited condensed consolidated financial data include all adjustments, consisting only of normal and recurring adjustments, that our management considered necessary for a fair statement of our financial position and results of operation for the quarters presented.

	For the Three Months Ended,						
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
	(Unaudited)						
	(In HK\$ thousands)						
<b>Revenues</b>							
Brokerage commission and handling charge income	25,815	37,721	50,891	70,491	94,772	90,051	109,839
Interest income	6,668	12,640	32,690	53,874	66,652	87,080	104,005
Other income	4,232	3,878	3,832	8,931	10,985	9,101	11,682
<b>Total revenues</b>	<b>36,715</b>	<b>54,239</b>	<b>87,413</b>	<b>133,296</b>	<b>172,409</b>	<b>186,232</b>	<b>225,526</b>
<b>Costs</b>							
Brokerage commission and handling charge expenses	(5,240)	(7,345)	(9,969)	(14,223)	(19,364)	(20,060)	(20,190)
Interest expenses	(1,935)	(1,431)	(3,564)	(12,949)	(17,280)	(23,861)	(32,035)
Processing and servicing costs	(11,075)	(13,158)	(15,257)	(12,956)	(15,689)	(16,485)	(20,375)
<b>Total costs</b>	<b>(18,250)</b>	<b>(21,934)</b>	<b>(28,790)</b>	<b>(40,128)</b>	<b>(52,333)</b>	<b>(60,406)</b>	<b>(72,600)</b>
<b>Total gross profit</b>	<b>18,465</b>	<b>32,305</b>	<b>58,623</b>	<b>93,168</b>	<b>120,076</b>	<b>125,826</b>	<b>152,926</b>
<b>Operating expenses</b>							
Selling and marketing expenses <sup>(1)</sup>	(4,535)	(11,172)	(14,536)	(11,203)	(10,086)	(28,994)	(34,591)
Research and development expenses <sup>(1)</sup>	(19,127)	(23,674)	(26,605)	(26,120)	(30,809)	(34,858)	(39,990)
General and administrative expenses <sup>(1)</sup>	(13,868)	(11,693)	(16,498)	(15,234)	(19,207)	(23,166)	(30,895)
<b>Total operating expenses</b>	<b>(37,530)</b>	<b>(46,539)</b>	<b>(57,639)</b>	<b>(52,557)</b>	<b>(60,102)</b>	<b>(87,018)</b>	<b>(105,476)</b>
Other, net	(2,497)	183	(661)	(1,943)	(62)	(1,634)	(4,316)
<b>(Loss)/Income before income tax expenses</b>	<b>(21,562)</b>	<b>(14,051)</b>	<b>323</b>	<b>38,668</b>	<b>59,912</b>	<b>37,174</b>	<b>43,134</b>
Income tax benefit/(expenses)	160	520	(3,382)	(8,778)	(14,131)	(12,937)	(12,814)
<b>Net (loss)/income</b>	<b>(21,402)</b>	<b>(13,531)</b>	<b>(3,059)</b>	<b>29,890</b>	<b>45,781</b>	<b>24,237</b>	<b>30,320</b>

(1) Share-based compensation expenses were allocated in operating expenses as follows:

	For the Three Months Ended,						
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
	(Unaudited)						
	(In HK\$ thousands)						
Selling and marketing expenses	71	70	10	10	10	10	10
Research and development expenses	2,290	2,106	2,286	2,172	2,173	2,226	2,249
General and administrative expenses	195	180	194	185	185	189	191
<b>Total</b>	<b>2,556</b>	<b>2,356</b>	<b>2,490</b>	<b>2,367</b>	<b>2,368</b>	<b>2,425</b>	<b>2,450</b>

## Table of Contents

### Quarterly trends

We have experienced continued growth in our revenues for the seven quarters from January 1, 2017 to September 30, 2018. Driven by the continued increases in our paying client base, client assets and trading volume and margin financing balance, our revenues from both brokerage commission and handling charge income and interest income increased substantially during these periods. Revenues from brokerage commission and handling charge income slightly decreased in the second quarter of 2018 due to the slight decrease of our trading volume as a result of market volatility.

Our costs also increased substantially during these periods mainly as a result of the increase in our brokerage commission and handling charge expenses mainly due to the increase of our trading volume and the increase in our interest expenses along with the expansion of our margin financing business in these periods. Our quarterly operating expenses also experienced continued increase during these periods, which was mainly due to the continuous growth of our business. The decrease in our quarterly operating expenses from the third quarter of 2017 to the fourth quarter of 2017 was primarily because we conducted less marketing and promotion activities in the fourth quarter. Meanwhile, all components of our operating expenses also generally continued to increase as we grew our business and expanded our user and client base. In particular, our research and development expenses increased substantially during these periods as we invested significantly in research and development activities to promote our technological capabilities to support our services and business operations.

Our results of operations are subject to fluctuation and changes in market conditions. For example, investor sentiment and trading volume may be influenced by capital market conditions, resulting in fluctuation in brokerage commission and fee income we earn. Our margin financing business is subject to influences from market factors such as market liquidity, interest rate and investor sentiment. The impact of fluctuation and changes of market conditions, however, was not apparent historically due to the rapid growth of our business historically. Due to our limited operating history, the trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

### Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods presented:

	For the Year Ended December 31			For the Nine Months Ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
<b>Summary Consolidated Cash Flow Data:</b>						
Net cash generated from operating activities	1,397,692	1,855,328	237,075	1,520,504	3,395,805	433,920
Net cash used in investing activities	(6,230)	(5,145)	(657)	(4,440)	(30,716)	(3,925)
Net cash generated from financing activities	147,594	2,155,846	275,476	1,116,206	360,941	46,121
Effect of exchange rate changes on cash, cash equivalents and restricted cash	77	21,625	2,763	18,067	(1,350)	(173)
Net increase in cash, cash equivalents and restricted cash	1,539,133	4,027,654	514,657	2,650,337	3,724,680	475,943
Cash, cash equivalents and restricted cash at beginning of the year	1,985,055	3,524,188	450,323	3,524,188	7,551,842	964,981
Cash, cash equivalents and restricted cash at end of the year	3,524,188	7,551,842	964,980	6,174,525	11,276,522	1,440,924

To date, we have financed our operating and investing activities through cash generated by historical equity financing activities and credit facilities provided by commercial banks, other licensed financial institutions and other parties. As of December 31, 2016 and 2017 and September 30, 2018, respectively, our cash and cash equivalents were HK\$179.0 million, HK\$375.3 million (US\$48.0 million) and HK\$272.4 million (US\$34.8 million). Our cash and cash equivalents primarily consist of cash on hand, demand deposits, time

---

## [Table of Contents](#)

deposits and highly liquid investments placed with banks or other financial institutions, which are unrestricted for withdrawal or use, and which have original maturities of three months or less.

We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months. After this offering, we may decide to enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

As of September 30, 2018, our cash and cash equivalents were HK\$272.4 million (US\$34.8 million), out of which HK\$92.3 million (US\$11.8 million) was held in U.S. dollars, HK\$159.5 million (US\$20.4 million) was held in Hong Kong dollars, and HK\$20.6 million (US\$2.6 million) was held in Renminbi. As of September 30, 2018, 5.0% of our cash and cash equivalents were held in China, and 1.3% were held by our VIE. Although we consolidate the results of our VIE and its subsidiary, we only have access to the assets or earnings of our VIE and their subsidiary through our contractual arrangements with our VIE and their shareholders. See “Corporate History and Structure—Contractual Arrangements with Our VIE and Its Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

In utilizing the proceeds we expect to receive from this offering, we may make additional capital contributions to our PRC subsidiaries, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiaries, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations. See “Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries and our VIE and its subsidiaries” and “Use of Proceeds.”

We expect that a limited portion of our future revenues will be denominated in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

## Table of Contents

### Regulatory capital requirements

Subject to certain exemptions specified under the Securities and Futures (Financial Resources) Rules of Hong Kong (the “FRR”), Futu Securities International (Hong Kong) Limited, or Futu International Hong Kong, our Hong Kong subsidiary that is a securities dealer registered with the HK SFC, is required to maintain minimum paid-up share capital in accordance with the FRR. The following table sets out a summary of the key requirements on minimum paid-up share capital under the FRR which are applicable to Futu International Hong Kong:

	<b>Regulated Activities</b>	<b>Minimum Amount of Paid-up Share</b>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 4, Type 5 and Type 9 regulated activities	HK\$ 10,000,000

In addition, the FRR also requires a licensed corporation to maintain minimum liquid capital. The minimum liquid capital requirements under the FRR that are applicable to Futu International Hong Kong are the higher of the amount of (a) and (b) below:

- (a) the amount of:

	<b>Regulated Activities</b>	<b>Minimum Amount of Required Liquid Capital</b>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 4, Type 5 and Type 9 regulated activities	HK\$ 3,000,000

- (b) in the case of a corporation licensed for any regulated activities other than Type 3 regulated activities, its variable required liquid capital which means 5% of the aggregate of (i) its adjusted liabilities, (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, and (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to the requirement of payment of initial margin requirements.

Regulatory capital requirements could restrict Futu International Hong Kong from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. As of December 31, 2016 and 2017 and September 30, 2018, aggregate excess regulatory capital for Futu International Hong Kong was HK\$204.9 million, HK\$588.7 million (US\$75.2 million) and HK\$358.0 million (US\$45.7 million) respectively. As of September 30, 2018, Futu International Hong Kong was in compliance with its regulatory capital requirements.

### Operating activities

Net cash generated from operating activities for the nine months ended September 30, 2018 was HK\$3.4 billion (US\$433.9 million), as compared to net income of HK\$100.3 million (US\$12.8 million) in the same period. The difference was primarily due to net increase of HK\$4.5 billion (US\$578.3 million) in accounts payable to clients and brokers and net increase of HK\$322.1 million (US\$41.2 million) in accounts receivable from clients and brokers, partially offset by net increase of HK\$892.8 million (US\$114.1 million) in loans and advances. The increase in accounts payable to clients and brokers was due to the increase of cash deposits as a result of the expansion of our brokerage business. The increase of loans and advances was due to the expansion

---

## [Table of Contents](#)

of our margin financing business. The principal non-cash items affecting the difference between our net loss and our net cash generated from operating activities for the nine months ended September 30, 2018 were HK\$7.2 million (US\$0.9 million) in share-based compensation expenses and HK\$5.6 million (US\$0.7 million) in depreciation and amortization.

Net cash generated from operating activities in 2017 was HK\$1.9 billion (US\$237.1 million), as compared to net loss of HK\$8.1 million (US\$1.0 million) in the same year. The difference was primarily due to net increase of HK\$4.1 billion (US\$527.9 million) in accounts payable to clients and brokers and net decrease of HK\$477.4 million (US\$61.0 million) in accounts receivable from clients and brokers, partially offset by net increase of HK\$2.8 billion (US\$355.5 million) in loans and advances. The increase in accounts payable to clients and brokers was due to the increase of cash deposits as a result of the expansion of our brokerage business. The increase of loans and advances was due to the expansion of our margin financing business. The principal non-cash items affecting the difference between our net loss and our net cash generated from operating activities in 2017 were HK\$9.8 million (US\$1.3 million) in share-based compensation expenses and HK\$4.3 million (US\$0.5 million) in depreciation and amortization.

Net cash generated from operating activities in 2016 was HK\$1.4 billion, as compared to net loss of HK\$98.5 million in the same year. The difference was primarily due to net increase of HK\$2.2 billion in accounts payable to clients and brokers, partially offset by net increase of HK\$566.7 million in accounts receivable from clients and brokers and net increase of HK\$126.2 million in loans and advances. The increase in accounts payable to clients and brokers was due to the increase of cash deposits as a result of the expansion of our brokerage business. The increase of accounts receivable from clients and brokers was attributable to the introduction and expansion of our margin financing business. The principal non-cash items affecting the difference between our net loss and our net cash generated from operating activities in 2016 were HK\$9.2 million in share-based compensation expenses and HK\$3.6 million in depreciation and amortization.

### *Investing activities*

Net cash used in investing activities for the nine months ended September 30, 2018 was HK\$30.7 million (US\$3.9 million), primarily due to the net proceeds from purchase of available-for-sale financial securities of HK\$17.0 million (US\$2.2 million) and the purchase of property, equipment and intangible assets of HK\$13.7 million (US\$1.8 million).

Net cash used in investing activities in 2017 was HK\$5.1 million (US\$0.7 million), primarily due to the purchase of property, equipment and intangible assets of HK\$7.4 million (US\$0.9 million), partially offset by net proceeds from disposal of available-for-sale financial securities of HK\$2.2 million (US\$0.3 million).

Net cash used in investing activities in 2016 was HK\$6.2 million, primarily due to purchase of property, equipment and intangible assets of HK\$4.0 million and net purchase from disposal of available-for-sale financial securities of HK\$2.2 million.

### *Financing activities*

Net cash generated from financing activities for the nine months ended September 30, 2018 was HK\$360.9 million (US\$46.1 million), primarily attributable to proceeds of HK\$4.4 billion (US\$568.0 million) from short-term borrowings, partially offset by repayment of short-term borrowings of HK\$4.1 billion (US\$521.9 million).

Net cash generated from financing activities in 2017 was HK\$2.2 billion (US\$275.5 million), primarily attributable to proceeds of HK\$2.5 billion (US\$321.8 million) from short-term borrowings and proceeds of HK\$620.6 million (US\$79.3 million) from issuance of Series C preferred shares and Series C-1 preferred shares, partially offset by repayment of short-term borrowings of HK\$983.0 million (US\$125.6 million).

## [Table of Contents](#)

Net cash generated from financing activities in 2016 was HK\$147.6 million, attributable to proceeds from short-term borrowings.

### *Capital expenditures*

Our capital expenditures are primarily incurred for purchase of property, equipment and intangible assets. Our capital expenditures were HK\$4.0 million in 2016, HK\$7.4 million (US\$0.9 million) in 2017 and HK\$13.7 million (US\$1.8 million) for the nine months ended September 30, 2018. We intend to fund our future capital expenditures with our existing cash balance and proceeds from this offering. We will continue to make capital expenditures to meet the expected growth of our business.

### **Principal Indebtedness**

Our principal indebtedness includes short-term borrowing from banks and other parties, as well as convertible notes issued to Qiantang River Investment Limited.

### *Short-term borrowings*

	<u>As of December 31,</u>		<u>As of September 30,</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	
	<u>(HK\$ in thousands)</u>		<u>HK\$</u>	<u>US\$</u>
Borrowings from:				
Banks	—	1,142,448	1,707,837	218,229
Related parties	<u>161,179</u>	<u>400,000</u>	<u>200,000</u>	<u>25,556</u>
Total	<u>161,179</u>	<u>1,542,448</u>	<u>1,907,837</u>	<u>243,785</u>

We have entered into short-term borrowings primarily to support our margin financing business in Hong Kong. Our short-term borrowings bear weighted average interest rates of 4.09%, 3.18% and 4.37% as of December 31, 2016 and 2017 and September 30, 2018, respectively.

As of December 31, 2016, we had a credit facility with a related party, of which principal amounted to RMB10.0 million (US\$1.5 million) with an interest rate of 5.35% per annum, guaranteed by Mr. Leaf Hua Li, our founder, chairman and chief executive officer. The loan was paid in full in June 2017.

In September 2016, we entered into a revolving loan agreement with a related party in the amount of up to HK\$200.0 million (US\$25.6 million) with an interest rate of 4.0% per annum. The loan was paid in full in May 2017.

In December 2017, we entered into a revolving loan agreement with a related party in the amount of up to HK\$700.0 million (US\$89.4 million) with an interest rate of 4.5% per annum. The loan was paid in full in October 2018.

In February 2017, we entered into a secured loan agreement with a commercial bank in Hong Kong of a share margin financing overdraft facility in the amount of up to HK\$180.0 million (US\$23.0 million) with an interest rate of 1.5% per annum over HIBOR. In February 2018, we renewed our loan agreement with the bank of an increased overdraft facility in the amount of up to HK\$400.0 million (US\$51.1 million). The outstanding balance is repayable on demand by the bank or otherwise becomes due in December 2018. As of September 30, 2018, the outstanding balance of the loan was HK\$251.7 million (US\$32.2 million), which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients, with market value of HK\$555.9 million (US\$71.0 million) as collateral.

---

## [Table of Contents](#)

In August 2017, we entered into a secured loan agreement with an aggregate facility in the amount of up to HK\$140.0 million (US\$17.9 million) with a commercial bank in Hong Kong. The loan agreement was renewed in March 2018 for a total amount of HK\$300.0 million (US\$38.3 million), which will mature in March 2019. The loan bear interest at a floating rate of 1.6% per annum over applicable HIBOR or 0.7% per annum over its deposit rate, whichever is lower (for Hong Kong dollars), or 1.6% per annum over applicable LIBOR or 0.7% per annum over its deposit rate, whichever is lower (for U.S. dollars). As of September 30, 2018, the outstanding balance of the loan was HK\$210.0 million (US\$26.8 million), which was guaranteed by Mr. Leaf Hua Li pledged by shares of our margin financing clients, with market value of HK\$468.6 million (US\$59.9 million) as collateral.

In September 2017, we entered into a revolving loan agreement with a commercial bank in Hong Kong in the amount of US\$35.0 million to finance our margin financing business. The loan matured in March 2018, and we renewed our loan agreement with the commercial bank in April 2018 for a total amount of US\$75.0 million, out of which US\$70.0 million will bear interest at a floating rate of 1.6% per annum over LIBOR (for U.S. dollars) or 1.5% per annum over HIBOR (for Hong Kong dollars) or 1% per annum over its cost of funds (for Renminbi), while the remaining US\$5.0 million with a floating interest rate of 2.2% per annum over LIBOR for U.S. dollars or 2.1% per annum over HIBOR for Hong Kong dollars or 1.5% per annum over its cost of funds for Renminbi. The loan will mature in March 2019. As of September 30, 2018, the outstanding balance of the loan was HK\$200.0 million (US\$25.6 million), which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients, with market value of HK\$643.2 million (US\$82.2 million) as collateral.

In November 2017, we entered into a one-year credit agreement with a commercial bank in Hong Kong, which provided a revolving loan facility of up to an aggregate maximum amount of HK\$750.0 million (US\$95.8 million), or 90% of its equivalent in Renminbi. The facility will expire in November 2018. We are entitled to elect the interest period for each advance, including one, two or three months. In case of drawdowns in Hong Kong dollars, the interest rate is 1.5% per annum over HIBOR for the relevant interest period. In case of drawdowns in Renminbi, the interest rate is 1.5% per annum over the Renminbi HIBOR for the relevant interest period. All amounts borrowed under the agreement, including interest accrued thereon, should be repaid or re-borrowed at the end of each interest period. As of September 30, 2018, we had an outstanding borrowing balance of RMB446.1 million (US\$57.0 million) under the facility, which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients with market value of HK\$924.3 million (US\$118.1 million) as collateral.

In December 2017, we entered into an uncommitted revolving loan agreement with a commercial bank in Hong Kong of a facility in the amount of up to HK\$500.0 million (US\$63.9 million) or its equivalent in U.S. dollars or Renminbi. This facility will expire in December 2018. Each drawdown will bear interest at a floating rate, which will be determined on a case-by-case basis in accordance with the lender's practice and shall be agreed by us. As of September 30, 2018, the outstanding balance of the loan was HK\$460.0 million (US\$58.8 million), which was guaranteed by Mr. Leaf Hua Li.

In December 2017, we entered into a loan agreement, at an interest rate of 5.8% per annum, with an aggregate amount of up to US\$8.0 million or its equivalent amount in Renminbi with a commercial bank in China, of which HK\$5.0 million (US\$0.6 million) is revolving with maturity date in December 2018, while the remaining HK\$3.0 million (US\$0.4 million) is non-revolving and will expire in December 2020. We repaid all outstanding balance in September 2018.

In February 2018, we entered into an uncommitted revolving loan agreement with one commercial bank in Hong Kong for a facility in the amount of HK\$1,000.0 million (US\$127.8 million) to finance our margin financing business. The loan will mature in February 2019, and bears interest at a floating rate of 1.3% per annum over HIBOR. As of September 30, 2018, we had no outstanding balance while we still pledged shares of our margin financing clients with market value of HK\$16.2 million (US\$2.1 million) as collateral.

## Table of Contents

In March 2018, we entered into a revolving loan agreement with one commercial bank in Hong Kong for a facility in the amount of HK\$160.0 million (US\$20.4 million), which will mature in March 2019. HK\$8.0 million (US\$1.0 million) out of the HK\$160.0 million (US\$20.4 million) will bear interest at a floating rate of 2.5% per annum over HIBOR. HK\$2.0 million (US\$0.3 million) out of the HK\$160.0 million (US\$20.4 million) will bear interest at a floating rate of 1% per annum below the bank's HKD Prime Rate, or 1% per annum over HIBOR, whichever is higher, payable monthly in arrears, while the remaining HK\$150.0 million (US\$19.2 million) will bear interest at a floating rate of 1.5% per annum over HIBOR. As of September 30, 2018, the outstanding balance of the loan was HK\$140.0 million (US\$17.9 million), which was guaranteed by Mr. Leaf Hua Li and secured by pledged shares of our margin financing clients with market value of HK\$255.3 million (US\$32.6 million) as collateral.

### Convertible notes

In May 2015, we issued the convertible note in the aggregated principal amount of HK\$30.0 million (US\$3,833,425) to Qiantang River Investment Limited, one of our investors, with a compounding interest rate at 4% per annum, due one year after the issuance date. Subsequently, we and the holder of the convertible note agreed to extend the maturity date for one more year. Pursuant to the convertible note agreement, the holder of the convertible note may (i) convert the outstanding principal of the convertible note and accrued but unpaid interest under this convertible note into number of shares of Series C preferred shares of our company at a per share price of Series C preferred shares, or (ii) convert the outstanding balance in whole or in part into fully paid and non-assessable shares of our company's ordinary shares at a price per share equal to the fair market value of our company's ordinary shares immediately prior to a change of control or initial public offering, as applicable.

### Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2018:

	Payment due by December 31,					
	Total	2018	2019	2020	2021	2022 and after
	(in HK\$ thousands)					
Operating lease commitments <sup>(1)</sup>	234,929	7,764	55,288	51,358	38,751	81,858
Total	234,929	7,764	55,288	51,358	38,751	81,858

Note:

(1) Operating lease commitments consist of the commitments under the lease agreements for our office premises. We lease our office facilities under non-cancellable operating leases with various expiration dates through October 31, 2020.

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of September 30, 2018.

### Off-Balance Sheet Commitments and Arrangements

We enter into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include the securities lending and borrowing agreements with our clients and other business parties. Additionally, we enter into guarantees and other similar arrangements in the ordinary course of business.

We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

---

## [Table of Contents](#)

### **Critical Accounting Policies**

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and accompanying notes and other disclosures included in this prospectus. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

The consolidated financial statements include the financial statements of our Company, our subsidiaries, our VIE and its subsidiary for which we or a subsidiary of ours is the primary beneficiary.

### ***Basis of Consolidation***

A Subsidiary is an entity in which we, directly or indirectly, control more than one half of the voting power; or have the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or have the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which we, or our subsidiary, through contractual arrangements, have the power to direct the activities that most significantly impact the entity's economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore we or our subsidiary is the primary beneficiary of the entity.

All transactions and balances among us, our subsidiaries, the VIE and its subsidiary have been eliminated upon consolidation.

### ***Use of Estimates***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenues, cost and expenses during the reported period in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in our consolidated financial statements mainly include, but are not limited to, assessment of whether we act as a principal or an agent in different revenue streams, the determination of estimated selling prices of multiple element revenue contracts, the estimation of selling and marketing expense from incentive program, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, assessment for impairment of loans and advance, provision of income tax and valuation allowance for deferred tax asset as well as determination of the fair value of preferred shares and ordinary shares. Actual results could differ from those estimates.

---

## [Table of Contents](#)

### ***Comprehensive Income and Foreign Currency Translation***

Our operating results are reported in the consolidated statements of comprehensive (loss)/income pursuant to FASB ASC Topic 220, “Comprehensive Income.” Comprehensive income consists of two components: net income and other comprehensive income (“OCI”). Our OCI is comprised of gains and losses resulting from translating foreign currency financial statements of entities, of which functional currency is other than Hong Kong dollar which is the presentational currency of us, net of related income taxes, where applicable. Our subsidiaries’ assets and liabilities are translated into Hong Kong dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary’s functional currency to the Hong Kong dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the consolidated balance sheets.

### ***Trading Receivables from and Payables to Clients, Brokers and Clearing Organizations***

Trading receivables from and payables to clients include amounts due on brokerage transactions on a trade-date basis. Receivables from and payables to brokers and clearing organization include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities not delivered by us to the purchaser by the settlement date and cash deposits, as well as amounts payable for securities not received by us from a seller by the settlement date.

Clearing settlement fund deposited in the clearing organizations for the clearing purpose is recognized in receivables from clearing organization.

We borrowed margin loan from executing brokers in the United States, with the amount of HK\$3.0 million, HK\$920.2 million (US\$117.6 million) and HK\$1.4 billion (US\$185.2 million) as of December 31, 2016 and 2017 and September 30, 2018, respectively, and with the benchmark interest rate plus premium differentiated depending on the trading volume, and immediately lent to margin clients. Margin loan borrowed is recognized in the payables to brokers.

### ***Revenue Recognition***

#### *Brokerage commission and handling charge income*

Brokerage commission income earned for executing and/or clearing transactions are accrued on a trade-date basis. Handling and settlement fee income derived from services such as settlement services and subscription and dividend collection handling services are accrued on a trade-date basis.

#### *Interest income*

We earn interest income primarily in connection with our margin financing and securities lending services, IPO financing and deposits with banks, which are recorded on an accrual basis and are included in interest income in the consolidated statements of comprehensive (loss)/income. Interest income is recognized as it accrues using the effective interest method.

#### *Other income*

Other income consists of enterprise public relations service provided to corporate clients, underwriting income, IPO subscription service charge income, currency exchange service income from clients, income from market data service, and client referral income from brokers, among others. Other income is recognized when the related services are rendered.

### ***Foreign Currency Gains and Losses***

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets

---

## [Table of Contents](#)

and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Foreign currency gain or loss resulting from the settlement of such transactions and from re-measurement at period-end is recognized in "Others, net" in the consolidated statements of comprehensive (loss)/income.

### *Incentives*

We offer self-managed customer loyalty program points, which can be used in mobile app and website to redeem a variety of concessions or services, such as commission-deduction coupons and Level II A shares securities market data card. Clients have a variety of ways to obtain the points. The major accounting policy for the points program is described as follows:

#### *Sales contracts related scenarios*

The sales contracts related scenarios include client entering into the first Hong Kong stock brokerage transaction, first U.S. stock brokerage transaction, IPO stock brokerage transactions, and currency exchange services. We conclude the points offered linked to the purchase transaction of these scenarios are a material right and accordingly a separate performance obligation according to ASC 606, and should be taken into consideration when allocating the transaction price of the sales. We determine the value of each point based on fair value of the concessions and services that can be redeemed with points. We also estimate the probability of the points redemption when performing the allocation. Since the historical information is not yet available for us to determine any potential points forfeitures and the fact that most services can be redeemed without requiring a significant number of points in light of the number of points provided to users, we believe it is reasonable to assume all points will be redeemed and no forfeiture is estimated currently. We will apply and update the estimated redemption rate and the estimated value of each point at each reporting period. The amount allocated to the points as separate performance obligation is recorded as contract liabilities and revenues should be recognized when future concessions or services are transferred.

For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, the revenue portion allocated to the points as separate performance obligation were HK\$1.2 million, HK\$2.0 million (US\$255.6 thousand) and HK\$1.9 million (US\$242.8 thousand), respectively, which is recorded as contract liability. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, the total points recorded as a reduction of revenues were HK\$32.3 thousand, HK\$330.1 thousand (US\$42.2 thousand) and HK\$274.0 thousand (US\$35.0 thousand), respectively. As of December 31, 2016 and 2017 and September 30, 2018, contract liabilities recorded related to unredeemed points were HK\$1.1 million, HK\$2.5 million (US\$319.5 thousand) and HK\$3.2 million (US\$408.9 thousand), respectively.

#### *Other scenarios*

Clients or the users of the mobile application can also obtain points through other ways such as logging into the mobile application, opening a trade account and inviting friends, etc. We believe these points are to encourage user engagement and generate market awareness. As a result, we account for such points as selling and marketing expenses with a corresponding liability recorded under accrued expenses and other liabilities of our consolidated balance sheets upon the offering of these points. We estimate liabilities under the customer loyalty program based on cost of the concessions or services that can be redeemed with the assumption of full redemption. At the time of redemption, we record a reduction of accrued expenses and other liabilities.

For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, the total points recorded as selling and marketing expenses were HK\$3.1 million, HK\$197.7 thousand (US\$25.3 thousand) and HK\$175.0 thousand (US\$22.4 thousand), respectively. As of December 31, 2016 and 2017 and September 30, 2018, liabilities recorded related to unredeemed points in other scenarios were HK\$3.0 million, HK\$488.3 thousand (US\$62.4 thousand) HK\$452.0 thousand (US\$57.8 thousand), respectively.

---

## [Table of Contents](#)

### ***Cash and Cash Equivalents***

Cash and cash equivalents represent cash on hand, demand deposits and time deposits placed with banks or other financial institutions, which are unrestricted to withdrawal or use, and which have original maturities of three months or less.

### ***Cash Held on behalf of Clients***

We have classified clients' deposits as cash held on behalf of our clients under the assets section in the consolidated balance sheets and recognized the corresponding accounts payable to the respective clients under the liabilities section.

### ***Fair Value Measurements***

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and we consider assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 - Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 - Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 - Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When available, we use quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, we will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

The carrying amount of cash and cash equivalents, cash held on behalf of clients, receivables from and payables to clients, brokers and clearing organization, amounts due from and due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Loans and advances and accrued interest receivable are measured at amortized cost. Short-term borrowings and accrued interest payable are carried at amortized cost. The carrying amount of loans and advances, short-term borrowings, accrued interest receivable, and accrued interest payable approximates their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Available-for-sale financial securities are measured at fair value.

Our non-financial assets, such as property, equipment and computer software, would be measured at fair value only if they were determined to be impaired.

## Table of Contents

### Share-Based Compensation

All share-based awards to employees and directors, such as stock options, are measured at the grant date based on the fair value of the awards. Share-based compensation, net of estimated forfeitures, is recognized as expenses on a straight-line method over the requisite service period, which is the vesting period. Options granted generally vest over four or five years.

We use the fair value of each of our ordinary shares on the grant date to estimate the fair value of stock options.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option and records share-based compensation expense only for those awards that are expected to vest.

Share-based compensation was recognized in operating expenses for the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018 as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2016	2017		2017	2018	
	HK\$	HK\$	US\$	HK\$	HK\$	US\$
	(in thousands)					
Selling and marketing expenses	261	161	21	151	30	4
Research and development expenses	8,335	8,854	1,131	6,682	6,648	850
General and administrative expenses	559	754	96	569	565	72
<b>Total share-based compensation expenses</b>	<b>9,155</b>	<b>9,769</b>	<b>1,248</b>	<b>7,402</b>	<b>7,243</b>	<b>926</b>

### Share Options

In December 2018, our board of directors approved the Amended and Restated 2014 Share Incentive Plan, or the A&R 2014 Plan, with the purpose to provide an incentive for employees contributing to the success of our company. The A&R 2014 Plan has a term of ten years and will be effective until October 30, 2024. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under the A&R 2014 Plan is 135,032,132 shares. Option awards are granted with an exercise price determined by our board of directors. Those option awards generally vest over a period of four or five years and expire in ten years.

For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, we granted 7,783,301, 217,455 and 30,690 share options to employees pursuant to the A&R 2014 Plan.

A summary of the share option activity under our A&R 2014 Plan for the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018 is included in the table below.

	Options granted share Number	Weighted average exercise price (US\$)
<b>Outstanding at January 1, 2016</b>	103,624,019	0.0057
<b>Granted</b>	7,783,301	0.1648
<b>Outstanding at December 31, 2016</b>	111,407,320	0.0168
<b>Granted</b>	217,455	0.9188
<b>Outstanding at December 31, 2017</b>	111,624,775	0.0186
<b>Granted</b>	30,690	2.2000
<b>Outstanding at September 30, 2018</b>	<b>111,655,465</b>	<b>0.0192</b>

## Table of Contents

The following tables summarize information regarding the share options granted as of December 31, 2016, December 31, 2017 and September 30, 2018:

As of December 31, 2016				
Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value	
	US\$		HK\$ (in thousands)	
Options				
Outstanding	111,407,320	0.0168	7.84	3,597
Exercisable	44,540,241	0.0035	7.84	1,515
Expected to vest	66,867,079	0.0257	7.84	2,082
As of December 31, 2017				
Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value	
	US\$		HK\$ (in thousands)	
Options				
Outstanding	111,624,775	0.0186	6.84	6,660
Exercisable	70,630,894	0.0073	6.84	4,317
Expected to vest	40,993,881	0.0380	6.84	2,343
As of September 30, 2018				
Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value	
	US\$		HK\$ (in thousands)	
Options				
Outstanding	111,655,465	0.0192	6.09	7,264
Exercisable	76,381,552	0.0111	6.09	5,048
Expected to vest	35,273,913	0.0367	6.09	2,216

The weighted average grant date fair value of options granted for the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018 was US\$0.1122, US\$0.0998 and US\$0.0311 per option post share split, respectively.

No options were exercised for the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018.

### Fair Value of Preferred Shares and Ordinary Shares

Our shares, which do not have quoted market prices, were valued based on the income approach. The income approach involves applying the discounted cash flow analysis based on projected cash flow using our best estimate as of the valuation dates. Estimating future cash flow requires us to analyze projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. In determining an appropriate discount rate, we considered the cost of equity and the rate of return expected by venture capitalists. We also applied a discount for lack of marketability given that the shares underlying the award were not publicly traded at the time of grant. Determination of estimated fair value of us requires complex and subjective judgments due to its limited financial and operating history, unique business risks and limited public information on companies in China similar to us.

---

## [Table of Contents](#)

Option-pricing method was used to allocate enterprise value to preferred shares and ordinary shares. The method treats preferred shares and ordinary shares as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred shares. The strike prices of the "options" based on the characteristics of our capital structure, including number of shares of each class of ordinary shares, seniority levels, liquidation preferences, and conversion values for the preferred shares. The option-pricing method also involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board of directors and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies.

### **Internal Control Over Financial Reporting**

Prior to this offering, we have been a private company with limited accounting personnel and other resources with which we address our internal control over financial reporting. In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2016 and 2017, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified related to our lack of financial reporting and accounting personnel with understanding of U.S. GAAP to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC. The material weakness, if not remediated timely, may lead to significant misstatements in our consolidated financial statements in the future.

We have implemented and plan to implement a number of measures to address the material weakness that has been identified in connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2016 and 2017. We have hired additional qualified financial and accounting staff with working experience of U.S. GAAP and SEC reporting requirements. We have also established clear roles and responsibilities for accounting and financial reporting staff to address complex accounting and financial reporting issues. Furthermore, we will continue to further expedite and streamline our reporting process and develop our compliance process, including establishing a comprehensive policy and procedure manual, to allow early detection, prevention and resolution of potential compliance issues, and establishing an ongoing program to provide sufficient and appropriate training for financial reporting and accounting personnel, especially training related to U.S. GAAP and SEC reporting requirements. We intend to conduct regular and continuing U.S. GAAP accounting and financial reporting programs and send our financial staff to attend external U.S. GAAP training courses. We also intend to hire additional resources to strengthen the financial reporting function and set up a financial and system control framework. However, we cannot assure you that all these measures will be sufficient to remediate our material weakness in time, or at all. See "Risk Factors—Risks Related to Our Business and Industry—We have identified a material weakness in our internal controls as of December 31, 2017, and if we fail to implement and maintain an effective system of internal controls to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud."

As a company with less than US\$1.07 billion in revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting.

## **Holding Company Structure**

Futu Holdings Limited is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries in Hong Kong and the PRC, our VIE and its subsidiary in China. As a result, Futu Holdings Limited's ability to pay dividends depends upon dividends paid by our subsidiaries in Hong Kong and the PRC. If our existing Hong Kong and PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our VIE in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and our VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

## **Inflation**

To date, inflation in China and Hong Kong has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2016 and 2017 and September 2018 were increases of 2.1%, 1.8% and 2.5%, respectively, and according to the Census and Statistics Department of Hong Kong, the year-over-year percent changes in the consumer price index for December 2016 and 2017 and September 2018 were increases of 1.2%, 1.7% and 2.7%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China or Hong Kong experiences higher rates of inflation in the future.

## **Quantitative and Qualitative Disclosures about Market Risk**

### *Foreign exchange risk*

Most of our revenues are denominated in Hong Kong dollar and a significant portion of our expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in the ADSs will be affected by the exchange rate between U.S. dollar and Hong Kong dollar because the value of our business is effectively denominated in Hong Kong dollars, while the ADSs will be traded in U.S. dollars.

In addition, foreign exchange risk also arises from the possibility that fluctuations in foreign exchange rates can impact the value of financial instruments. As an online broker active in Hong Kong and the U.S. market, we are exposed to minimal foreign exchange risk since Hong Kong dollars are pegged against U.S. dollars. The impact of foreign exchange fluctuations in our earnings is included in others, net in the consolidated statements of comprehensive (loss)/income.

To the extent that we need to convert U.S. dollars into Hong Kong dollars or Renminbi for our operations, appreciation of Hong Kong dollar or Renminbi against the U.S. dollar would reduce the amount in Hong Kong dollars or Renminbi we receive from the conversion. Conversely, if we decide to convert Hong Kong dollars or Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Hong Kong dollars or Renminbi would reduce the U.S. dollar amounts available to us.

---

## [Table of Contents](#)

In addition, as of September 30, 2018, we had RMB-denominated cash of HK\$20.6 million (US\$2.6 million). We estimate that a 10% depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on September 28, 2018 would result in a decrease of US\$0.3 million in our total assets as of September 30, 2018, and a 10% appreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on September 28, 2018 would result in an increase of US\$0.3 million in our total assets as of September 30, 2018.

### *Credit risk*

Our securities activities are transacted on either a cash or margin basis. Our credit risk is limited in that substantially all of the contracts entered into are settled directly at securities clearing houses.

In margin transactions, we extend credit to the clients, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. IPO loans are exposed to credit risk from clients who fail to repay the loans upon IPO stock allotment. We monitor our clients' collateral level and have the right to dispose the newly allotted stocks once the stocks start trading. Bridge loans to enterprise pledged by shares are exposed to credit risk from counterparties who fails to repay the loans. We monitor the collateral level of bridge loans in real time, and have the right to dispose of the pledged shares once the collateral level falls under the minimal level required to get the loans repaid.

Liabilities to other brokers and dealers related to unsettled transactions are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers.

In connection with its clearing activities, Futu Hong Kong is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to us. Clients are required to complete their transactions by the settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, we may incur losses. We have established procedures to reduce this risk by generally requiring that clients deposit sufficient cash and/or securities into their account prior to placing an order.

Our exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. There was no revenue from clients which individually represented greater than 10% of the total revenues for the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, respectively. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of December 31, 2017 and 2016 and September 30, 2018, we did not have any material concentrations of credit risk outside the ordinary course of business.

### *Interest rate risk*

Fluctuations in market interest rates may negatively affect our financial condition and results of operations. We are exposed to floating interest rate risk on cash deposit, floating rate borrowings and margin loans receivables. An increase in prevailing interest rates would lead to an increase in interest income from margin financing clients while at the same time resulting in an increase in interest expenses on the floating rate borrowings. We believe the risks due to changes in interest rates are not material to us, and we have not used any derivative financial instruments to manage our interest risk exposure.

### **Recently Issued Accounting Pronouncements**

A list of recently issued accounting pronouncements that are relevant to us is included in note 2 to our consolidated financial statements included elsewhere in this prospectus.

## INDUSTRY

Unless otherwise indicated, all information and data provided in the section is cited from the industry report issued by Oliver Wyman. Although we believe the data and information included in the Oliver Wyman report to be reliable, we have not independently verified the accuracy or completeness of the information and data included therein. This section also includes projections based on a number of assumptions. The online brokerage and related industries may not grow at the rate projected by market data, or at all. Failure of these markets to grow at the projected rate may have a material and adverse effect on our business and the market price of the ADSs.

### Global Securities Market

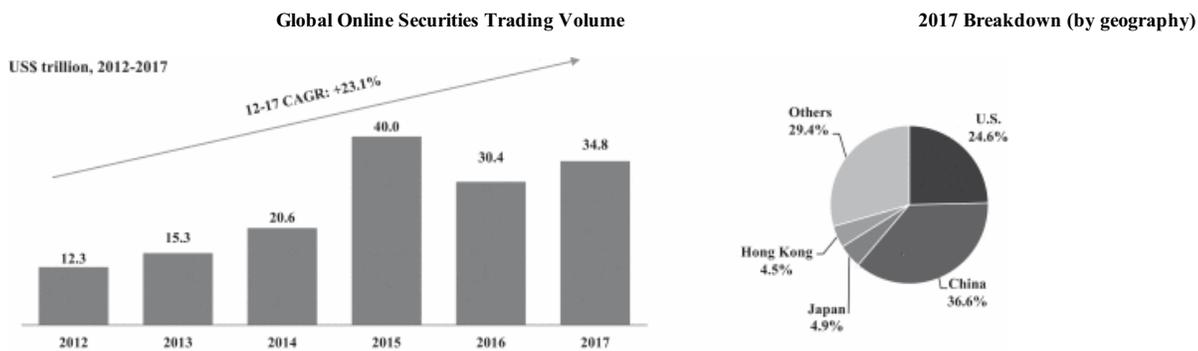
#### Market overview

The global securities market, including markets for stocks, bonds, funds, derivatives and others, grew from US\$77.9 trillion in 2012 to US\$99.0 trillion in 2017. As the popularity of digital investment channels grew, online trading volume as a percentage of total trading volume expanded from 15.8% in 2012 to 35.2% in 2017. Online trading refers to transactions submitted and executed electronically.

### Global Online Securities Market

#### Market overview

The global online securities market has expanded rapidly at a CAGR of 23.1% from 2012 to 2017, driven by general market growth and a shift in consumer preferences towards digital channels.



#### Growth drivers

The primary drivers behind the growth of online securities trading include:

- overall growth in global capital markets and in trading volumes;
- growing consumer receptivity to, and preferences for, online financial services, driven in part by the coming-of-age of the digitally-savvy generation;
- significant technological advances including cloud infrastructure, artificial intelligence and internet security; and
- lower investment thresholds and trading commissions, which can often be profitably and sustainably offered by operationally efficient digital players.

[Table of Contents](#)

**Industry trends**

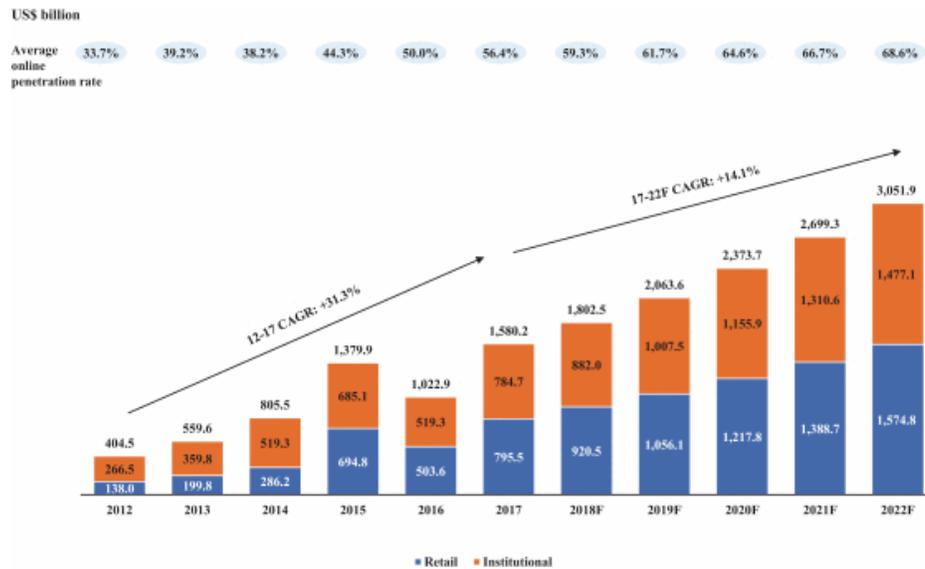
The following broad trends continue to impact the online securities industry:

- traditional brokers are shifting online while purely offline brokers are increasingly at a disadvantage or, in some cases, exiting the market altogether;
- internet giants continue to invest in online brokerage services, demonstrating the industry’s recognition of online brokerage services as an important component of a financial services business and potentially a gateway to broader opportunities;
- technological barriers to entry remain high particularly relating to building a secure infrastructure that can transcend geographies and asset classes;
- operational barriers to entry remain high particularly relating to regulatory and capital requirements;
- user experience remains a key competitive strength as digitally born consumers become a larger component of the addressable market; and
- revenue models are evolving as competition intensifies, with ancillary and other value-added services underlying platform differentiation.

**Hong Kong Securities Market**

Hong Kong is the world’s fourth largest online securities market, with annual trading volume growing from US\$404.5 billion in 2012 to US\$1.6 trillion in 2017, representing a CAGR of 31.3%, exceeding the global average of 23.1%. The size of Hong Kong’s online securities market is expected to reach US\$3.1 trillion in 2022, representing a forward CAGR of 14.1%.

**Hong Kong’s Online Securities Trading Volume**



Note: According to Oliver Wyman, the retail segment in online securities market refers to securities trading originated from orders entered directly by retail investors and channeled to the brokers via electronic media.

---

## [Table of Contents](#)

The Hong Kong online securities market is characterized by the following:

- increasing importance of retail channel: retail clients are gaining increasing market importance, with trading volume growing from US\$138.0 billion in 2012 to US\$795.5 billion in 2017. Over the same period, retail trading volumes increased from 34.1% to 50.3% of the total market;
- fast-growing online players: the number of online brokers, who are defined by HKEx as exchange participants that offer online trading services to retail investors, increased significantly from 126 in 2007 to 274 in 2016, expanding from 30.0% to 54.7% of the total number of brokers over the period;
- online players driving innovation: For example, on July 12, 2018, HK SFC released a circular regarding non face-to-face account opening by online brokers, demonstrating its acknowledgement of an evolving industry;
- HKEx gaining global importance: Hong Kong IPOs are propelling the market. Hong Kong has been a top four IPO listing exchange in the world over the last five years, and ranked second in 2015 and 2016. Growth in the China technology and internet sectors, in particular, has driven issuances in Hong Kong; and
- increasingly active local and overseas investors: Hong Kong-based local investors are becoming more active, with trading volume growing from US\$134.2 billion in 2012 to US\$632.2 billion in 2017. Meanwhile, contribution of overseas investors to the online retail trading volumes in Hong Kong increased from 2.8% to 20.5% over the same period, as China-based investors have increased their overseas investment in the recent years. At the same time, the introduction of Shanghai-HK connect has led more Hong Kong-based investors to invest in China's securities market.

The Hong Kong online securities market is currently served by three types of brokers:

- Pure-play online brokers:
  - operate online only and offer competitive commissions rates;
  - operate asset-light business models with typically strong technological capabilities;
  - offer market intelligence and social networking functions as engagement and client acquisition tools; and
  - serve mainly retail investors largely consisting of younger generations and Chinese nationals.
- Hybrid brokers with a combination of online and offline channels:
  - offer comprehensive financial services;
  - have generally long operating histories with established client base; and
  - serve both institutional and retail investors.
- Brokerage business unit within a commercial bank:
  - offer comprehensive banking and brokerage services;
  - rely on commercial banks' sales network and client reach;
  - larger investor asset base but lower overall trading frequency;
  - charge relatively higher commission rates due to higher operating costs; and
  - serve both institutional and retail investors.

### Top 10 Online Brokers in Hong Kong

Ranking <sup>(1)</sup>	Name	Type
1	HSBC	Brokerage business unit within a commercial bank
2	Haitong International Securities	Hybrid brokers
3	Bank of China (Hong Kong)	Brokerage business unit within a commercial bank
4	Futu Securities	Pure-play online brokers
5	Interactive Brokers	Pure-play online brokers
6	Bright Smart Securities	Hybrid brokers
7	Huatai Financial Holdings (Hong Kong)	Hybrid brokers
8	Citic Securities Brokerage (HK)	Hybrid brokers
9	China Merchants Securities(International)	Hybrid brokers
10	Everbright Sun Hung Kai	Hybrid brokers

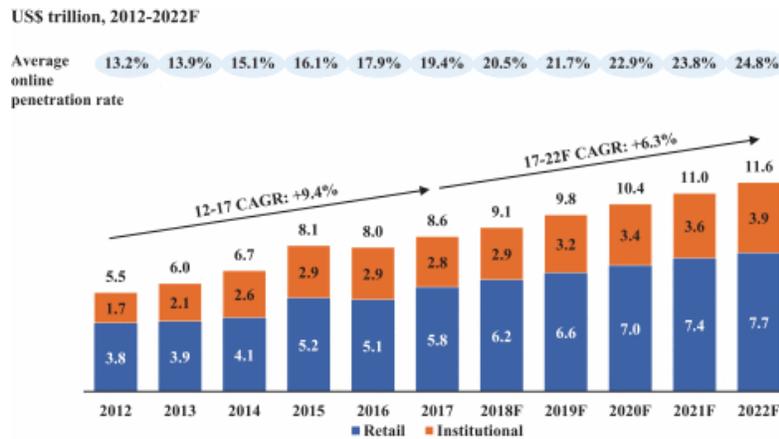
Note:

(1) The ranking is based on estimated online brokerage revenues derived from retail investors for the six months ended June 30, 2018 with reference to data gathered from public sources.

### United States Securities Market

The United States is the world's second largest online securities market, with annual trading volume growing from US\$5.5 trillion in 2012 to US\$8.6 trillion in 2017, representing a CAGR of 9.4%. The market size is expected to reach US\$11.6 trillion in 2022, representing a forward CAGR of 6.3%.

#### United States Online Securities Trading Volume



The United States online securities market is characterized by the following:

- runway for retail investors: online retail trading accounts for 67.7% of online securities trading volumes in the United States. Total retail trading represents 23.0% of total securities trading volume. The market opportunity in retail brokerage is therefore significant; and

## Table of Contents

- increasingly integrated offerings: discount brokers are developing increasingly integrated service offerings, leveling the playing field for retail investors.

### China-Based Investors' Overseas Investment Market

#### Market overview

The growth of China's mass affluent class has driven rapid growth in demand for wealth management services. Investable assets have grown from US\$11.0 trillion in 2012 to US\$22.1 trillion in 2017, representing a CAGR of 15.0% and are expected to continue growing at a similar rate, reaching US\$36.8 trillion in 2022. Meanwhile, the need for diversification further drives demand for overseas asset allocation opportunities. As a result, China-based investors' overseas investable assets are expected to grow from US\$1.1 trillion in 2017 to US\$3.5 trillion in 2022, representing a forward CAGR of 25.8%

#### China-Based Investors' Overseas Investable Assets



In 2017, the overseas penetration of China-based investors' investable assets represented around 5%, significantly lower than that of developed countries, such as 40% in the United Kingdom and 20% in the United States and Japan. Historically, high net worth investors contributed to the vast majority of China's overseas investment; however, mass affluent investors are expected to diversify their allocation of investable assets to overseas markets.

#### Growth drivers

The primary drivers behind the growth of overseas investment by China-based investors include:

- the listing of a large number of Chinese enterprises, especially fast growing technology, media and telecom companies, in Hong Kong and the United States;
- Chinese government policies, such as the "Belt and Road" initiatives, guiding China's outbound investment and the internationalization of Renminbi;
- relatively limited domestic investment opportunities, which has driven China-based investors to seek more investment opportunities abroad;
- increasingly attractive overseas opportunities as the United States and European economies recover from the Global Financial Crisis; and
- improving infrastructure, largely technology driven, providing channels for overseas investment.

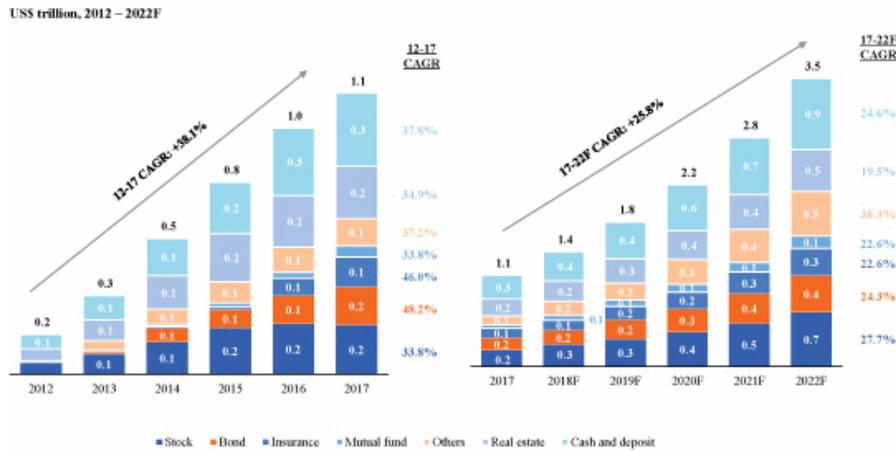
#### Overseas investment products and geographies for China-based investors

Financial assets including stock, bond, insurance, mutual fund and others, account for the largest allocation of overseas investment in 2017, among which stock investment reached US\$0.2 trillion, representing a CAGR of

[Table of Contents](#)

33.8% from 2012 to 2017. According to an investor survey conducted by Oliver Wyman with over 6,000 participants, China-based investors trading in overseas markets tend to trade more frequently and maintain more complex and diversified portfolios than investors trading exclusively within China's domestic market.

**China-Based Investors' Overseas Asset Allocation**



The Hong Kong and United States markets are the two most popular markets for China-based investors investing overseas. Despite smaller in its market scale compared to the United States, Hong Kong is favored because of its geographical and cultural proximity to mainland as well as the large number of listed Chinese companies. According to Hong Kong Stock Exchange, in September 2018, Chinese enterprises constituted 67.6% of market capitalization and over 78.7% of monthly stock trading volume.

**China's Overseas Online Retail Securities Market**

*Market overview*

China's overseas online retail securities market refers to the overseas market in which online securities trading are conducted by China-based retail investors. It represents a unique opportunity combining the high growth of the global online securities market with expanding overseas asset allocation by China-based investors.

**China's Overseas Online Retail Securities Market**

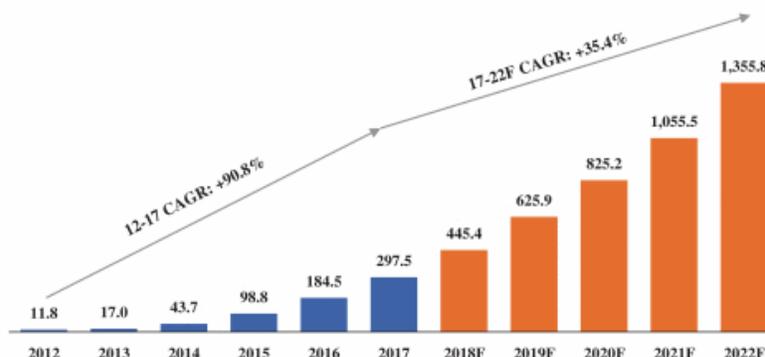


[Table of Contents](#)

According to Oliver Wyman, in 2017, China’s overseas online retail securities market reached US\$297.5 billion, with a CAGR of 90.8% from 2012 to 2017. The market is expected to reach nearly US\$1.4 trillion in 2022, representing a CAGR of 35.4% from 2017 to 2022.

**China’s Overseas Online Retail Securities Trading Volume**

US\$ billion, 2012 – 2022F



**Competition landscape**

The players in this market mainly consist of Chinese financial institutions with strong overseas presence, specifically in Hong Kong and the United States, as well as global players with a presence in the Chinese market.

**Top 10 Securities Companies in China’s Overseas Online Retail Securities Market**

Ranking <sup>(1)</sup>	Name	Key features
1	Haitong International Securities	Retail focused, offline focused, broad Chinese customer base
2	Futu Securities	Retail focused, online focused, broad Chinese customer base
3	Interactive Brokers	Retail focused, online focused, broad Chinese customer base
4	Bank of China (Hong Kong)	Retail/ institution hybrid, offline focused, limited Chinese customer base
5	HSBC	Retail/ institution hybrid, offline focused, limited Chinese customer base
6	China Merchants Securities(International)	Institution focused, offline focused, broad Chinese customer base
7	Huatai Financial Holdings (Hong Kong)	Retail/ institution hybrid, offline focused, broad Chinese customer base
8	CITIC Securities Brokerage (HK)	Institution focused, offline focused, broad Chinese customer base
9	Everbright Sun Hung Kai	Retail focused, online focused, broad Chinese customer base
10	China Galaxy International	Retail/ institution hybrid, offline focused, broad Chinese customer base

Note:

(1) The ranking is based on estimated online brokerage revenues derived from retail investors for the six months ended June 30, 2018 with reference to data gathered from public sources

## BUSINESS

### Our Mission

We strive to redefine traditional investing with proprietary technologies and a relentless focus on user experience, providing a gateway to building the world's leading digital financial institution.

### Overview

We are an advanced technology company transforming the investing experience by offering a fully digitized brokerage platform. Technology permeates every part of our business, allowing us to offer a redefined user experience built upon an agile, stable, scalable and secure platform. We primarily serve the emerging affluent Chinese population, pursuing a massive opportunity to facilitate a once-in-a-generation shift in the wealth management industry and build a digital gateway into broader financial services. As of September 30, 2018, we had an attractive and rapidly growing user base of 5.3 million, over 457,000 registered clients, defined as users who have opened trading accounts with us, and over 124,000 paying clients, defined as registered clients who have assets in their trading accounts. For the six months ended June 30, 2018, we brokered HK\$478.2 billion (US\$61.1 billion) in client trades, underlying a brokerage revenue base which ranked fourth among Hong Kong online retail brokers according to Oliver Wyman. We brokered HK\$678.0 billion (US\$86.6 billion) in client trades for the nine months ended September 30, 2018.

We launched our business on the premise that no one should be precluded from investing on the basis of prohibitive transaction costs or market inexperience. We thus designed a platform around an elegant user experience integrating clear and relevant market data, social collaboration and best-in-class trade execution, finding that by delivering our vision through a purpose-built technology infrastructure we could disrupt traditional investing conventions. Over the last eight years we have continuously enhanced our technology and built a comprehensive, user-oriented and cloud-based platform that is fully-licensed to conduct securities brokerage business in Hong Kong. This serves as a foundation from which we execute our growth strategies with an operating efficiency that allows us to offer commission rates that are approximately one-fifth of the average rate offered by the leading players in Hong Kong, according to Oliver Wyman, creating a massive barrier to entry. As of September 30, 2018, approximately 66% of our workforce was dedicated to research and development, reflecting the degree to which technological excellence is entrenched in every aspect of our business.

We provide investing services through our proprietary digital platform, *Futu NiuNiu*, a highly integrated application accessible through any mobile device, tablet or desktop. Our primary fee-generating services include trade execution and margin financing which allow our clients to trade securities, such as stocks, warrants, options and ETFs, across different markets. We surround our trading and margin financing services and enhance our user and client experience with market data and news, research, as well as powerful analytical tools, providing our clients with a data rich foundation to simplify the investing decision-making process.

We broaden our reach and promote the exchange of information through *NiuNiu Community*, our social network services. In contrast to traditional investing platforms and other online brokers, we have embedded social media tools to create a network centered around our users and provide connectivity to users, investors, companies, analysts, media and key opinion leaders. This fosters the free flow of information, reduces information asymmetry and supports the investing decision-making process. For instance, users can exchange market views, watch live broadcasts of corporate events and participate in investment education courses offered through the *NiuNiu Classroom*. Importantly, our social network serves as a powerful engagement tool where in September 2018, the average DAUs reached over 169,000. In addition, in September 2018, users who were active on a daily basis spent an average of 26 minutes per trading day through our *Futu NiuNiu* platform on our mobile application. These user activities provide invaluable user data which informs our product development and monetization efforts.

---

## [Table of Contents](#)

We have a young, active and rapidly expanding user and client base. Our clients are, on average, 34 years old and generally high earning. Approximately 44.7% of our clients work in internet, information technology or financial services industries. On average, a client who traded in the nine months ended September 30, 2018 executed over 162 trades with a total trading volume of HK\$6.2 million (US\$0.8 million). Our total client asset balance increased from HK\$15.5 billion as of December 31, 2016 to HK\$44.4 billion (US\$5.7 billion) as of December 31, 2017, and further increased to HK\$54.2 billion (US\$6.9 billion) as of September 30, 2018. Furthermore, our client base is loyal. We retained over 95% of our paying client base on a quarterly basis in 2016, and have retained over 97% of our paying client base on a quarterly basis since the beginning of 2017. We grow our client base mainly through online and offline marketing and promotional activities, including those through external marketing channels that we cooperate with and directly pay for as well as promotions and marketing campaigns conducted by us on our platform, word-of-mouth referrals and our corporate services. For the nine months ended September 30, 2018, approximately 18.5% of our client acquisition was through our corporate services.

We work with our strategic investor, Tencent, across a number of cooperation areas in a mutually beneficial relationship. Our collaboration is in part driven by our shared values of technological excellence and innovation. Collaborating with Tencent creates meaningful advantages to us. In December 2018, Shenzhen Futu, one of our operating entities in China, entered into a strategic cooperation framework agreement with Shenzhen Tencent Computer System Co., Ltd. (深圳市腾讯计算机系统有限公司), a subsidiary of Tencent. Pursuant to the strategic cooperation framework agreement, subject to further definitive agreements to be entered into between the parties and to the extent in compliance with applicable laws and regulations, Tencent agreed to cooperate with us in traffic, content and cloud areas through Tencent's online platform. In addition, to the extent permitted by the applicable laws and regulations, we and Tencent agreed to further explore and pursue additional cooperation opportunities for potential cooperation in the area of fintech-related products and services to expand both parties' international operations. Tencent also agreed to cooperate with us in the areas of ESOP services, administration, talent recruiting and training.

We have achieved significant growth in our user and client base, client assets, trading volumes and revenues. Our paying clients increased by 125.8% from 35,456 as of December 31, 2016 to 80,057 as of December 31, 2017, and increased by 98.4% from 62,899 as of September 30, 2017 to 124,809 as of September 30, 2018. Our growing paying client base allowed us to increase client assets and trading volumes by 186.0% and 164.4%, respectively, in 2017 as compared to 2016, and by 58.9% and 101.2%, respectively, for the nine months ended September 30, 2018 as compared to the same period of 2017. In comparison, the trading volume grew 14.5% from 2016 to 2017 on the global online securities markets, and grew 54.4% from 2016 to 2017 on the Hong Kong online securities market, according to Oliver Wyman. We believe the faster growth rate of our trading volume during the same was mainly attributable to our unique competitive strengths such as the superior investing experience we provide through our fully digitalized brokerage platform, which have enabled us to rapidly and continually expand our client base and have fueled the strong momentum of our business. Our revenues reached HK\$311.7 million (US\$39.8 million) in 2017, representing a 258.2% increase from HK\$87.0 million in 2016, and of HK\$584.2 million (US\$74.6 million) for the nine months ended September 30, 2018, representing a 227.5% increase from HK\$178.4 million for the same period of 2017. We were able to decrease our net loss from HK\$98.5 million in 2016 to HK\$8.1 million (US\$1.0 million) in 2017. We had net income of HK\$100.3 million (US\$12.8 million) for the nine months ended September 30, 2018 compared to net loss of HK\$38.0 million for the same period of 2017. Our adjusted net income, which excludes share-based compensation expenses, reached HK\$1.7 million (US\$0.2 million) in 2017, compared to an adjusted net loss of HK\$89.3 million in 2016. For the nine months ended September 30, 2018, our adjusted net income reached HK\$107.6 million (US\$13.7 million), compared to an adjusted net loss of HK\$30.6 million for the same period of 2017. See "Summary Consolidated Financial and Operating Data—Non-GAAP Measures" for a reconciliation of adjusted net (loss)/income to net (loss)/income.

---

## [Table of Contents](#)

### **Our Market Opportunity**

We see the following dynamics and trends shaping our market opportunity and guiding our growth strategies:

#### ***Fundamentally Underserved Market***

Internet, technology and data advances are rapidly redefining how financial products and services are consumed, particularly relating to mobile engagement, real-time data delivery and extensive social networking. Meanwhile, young investors are demonstrating modern investment objectives that extend further than return targets. In this respect, we view traditional brokerage offerings as underdeveloped from a technology and user experience perspective, highlighting a significant opportunity for digitally-born platforms that can deliver an enhanced experience without sacrificing execution and security.

We are determined to effectively compete to succeed in these markets as we see a massive opportunity deriving from the strong growth of online securities markets in the U.S. and Hong Kong and an imminent desire for outbound investment from China-based investors. While we have achieved a leading position in the Hong Kong online retail brokerage market, in the global online securities markets our total market share is less than 1%, according to Oliver Wyman, reduced further when considering the broader wealth management market and highlighting the magnitude of our long-term opportunity.

#### ***Multiple Market Tailwinds***

China is generating wealth at a pace unprecedented in history, a function of both the size and the transformation of the market; total investable assets outside China are expected to grow with a CAGR of 25.8% in the next five years, according to Oliver Wyman. With growing wealth, retail investors are increasingly interested in geographically diverse portfolios and the Chinese government policies are, to a certain extent, facilitating portfolio diversification through programs to invest abroad. In 2017, offshore investable assets represented 5.0% of total investable assets for investors in China, as compared to 20.0% in the United States and Japan, and is expected to grow to approximately 10.0% in five years. The demand for wealth management services, including brokerage, is enormous and we expect this demand to sustain through economic cycles and into the future. In particular, China new economy companies are swiftly and rapidly accessing the public markets, providing unique and attractive offshore investment targets which in turn create tremendous opportunities for market participants, like us, who provide services to facilitate and optimize such outbound investment activities.

#### ***Investing Upgrade***

With increased wealth, client segments ranging from mass affluent to ultra-high-net-worth are demanding more sophisticated, tailored and ultimately diversified investment options, including portfolio diversification away from investors' home market. This is leading to an investing upgrade whereby the wealth management landscape is being redefined by increasingly modern investment products as well as digital, frictionless infrastructures which are made available for investors all over the globe. We have designed our platform to cater to each of these respective demands and believe we are well positioned for this secular trend.

#### ***Investing as a Gateway to Broader Financial Services***

We view investors as increasingly receptive to receiving multiple financial products and services through "one-stop" platforms, with a particular competitive advantage accruing to platforms built upon financial services rather than social media or entertainment-based foundations. We have already witnessed the success of businesses and platforms across the globe built from an investing foundation and enriched by technology and innovation. We believe the element of trust earned in assisting both the generation and protection of wealth is what catalyzes this diversification opportunity which we see as available to us today.

## **Our Competitive Strengths**

We believe our leadership position and brand coupled with the following competitive strengths puts us at a distinct advantage:

### ***Premier Investing Experience***

Our goal is to make investing easier through technology. Traditional investing processes are paper-intensive and cumbersome while quality market research and information, to this day, remains targeted almost exclusively to experienced or professional investors. We built an investing experience to disrupt tradition, drive simplicity and promote inclusion, as follows:

- *Flexible Platform.* We broaden our addressable market by delivering our platform through iOS, Android, Mac and PC applications as well as through an internet browser. Across all channels we deliver a user interface that is intuitive, uniquely navigable and efficient.
- *Seamless Process.* Our processes are fully digitalized and seamless. We enable an online account opening application to be completed in as little as five minutes, simple account transfer, and margin financing which is accessible on-demand across international markets. We also offer various fund transfer methods and enable bank-to-brokerage fund transfer to be completed in as little as ten minutes.
- *Intelligible Market Insights.* We offer free or low-cost real-time market data as well as unique features, such as information about institutional trading volumes and trading order flows. We aggregate research and news from media partners, contributing authors and our in-house staff. The information and perspectives we subsequently provide to our users are insightful and targeted enough to be useful to our experienced investors, yet articulated clearly enough for first-time investors.
- *Social Connectivity.* We help to demystify investing by fostering an ecosystem, connecting users, investors and companies. We invite users to ask questions and exchange ideas through our social functions while companies can use our interactive tools, including live broadcasts, to communicate directly with investors. As of September 30, 2018, approximately 1.5 million users, including 80% of our clients, had participated in our social communities. Importantly, we have witnessed as social connectivity drives increased engagement; in September 2018, on average, a socially active client, defined as a client who traded on our platform and visited our *NiuNiu Community* at least ten days during the month, traded 50 times, while a non-socially active client, defined as a client who traded on our platform at least once and visited our *NiuNiu Community* less than ten days during the month, traded 20 times.

The merits of our user experience sum to a remarkably inviting platform devoid of jargon or barriers to making informed investing decisions efficiently, and driving a 98% user satisfaction rate according to internal surveys in the first half of 2018. In September 2018, we had 481,776 MAUs and 169,598 average DAUs, an increase of 96.4% and 106.3% from the same month of 2017, respectively. In September 2018, users who were active on a daily basis spent an average of 26 minutes per trading day through our *Futu NiuNiu* platform in our mobile application, compared to an average of 20 minutes per trading day in September 2017. By enriching the content of our platform as well as our user experience, we expect these levels of engagement to further grow, driving our ability to deepen client relationships over time.

### ***Closed-Loop, Proprietary Technology Infrastructure***

Over eight years we have made significant investments into our technology platform which has evolved into our highly-automated, multi-product, multi-market closed-loop technology infrastructure that drives every function of our business including trading, risk management, clearing, market data, news feeds and social functions. We believe our technology platform stands alone among peers based on the following:

- *Agility.* Our platform was designed for maximum flexibility, recognizing the need to be able to evolve in advance of industry shifts. We have developed a unified system to execute routine operational

---

## Table of Contents

activities with configurable templates, significantly reducing launch cycles and labor and accelerating response time. We were able to offer online account opening within ten days when the HK SFC guidance was released in July 2018, becoming the first among leading players. New versions of our core back office system are released on a weekly basis and new versions of our retail platform are released at least monthly. For the nine months ended September 30, 2018, we released 56 iterations of our application while introducing 1,241 new products features.

- *Stability.* We invest significantly to ensure platform stability through market or systematic volatility as well as ordinary course platform updates. Currently, our infrastructure can process 1,400 trades per second, many multiples of our current average trades per second and well in excess of our highest recorded per day volumes. Our service availability has reached 99.98% in the first half of 2018.
- *Scalability.* Our core system components are highly modularized and can be universally applied to future products or replicated for new markets: the trading, risk management and data functions of most new markets can be implemented in as little as one month. Furthermore, our platform is highly modularized and the vast majority of our mobile terminal functions are modularized. All of our systems are cloud-based, and we have further built a private cloud that can expand and contract similar to a public cloud. Our system can expand capacity by more than ten times, and requests for system capacity expansion can be completed within ten minutes.
- *Security.* We prioritize the security of our systems and user data. For instance, we offer dual identification verification to our clients so that each transaction is properly authorized and recorded. We invented the “core data security safe” technology, which provides continuous user authentication through navigation for our application. In addition, we have obtained an ISO27001 information security certification.

As of September 30, 2018, approximately 66% of our workforce was dedicated to research and development and the majority of them have work experience at leading internet and technology platforms. Mr. Leaf Hua Li, our founder, chairman and chief executive officer, has 18 years of experience in the internet sector. He joined Tencent in 2000 as its 18th employee. He was an early and key research and development participant of Tencent QQ and was the founder of Tencent Video leading the product design and development of Tencent Video. Our core technology team members have extensive experience in massive service infrastructure design. Our chief technology officer, Mr. Ppchen Weihua Chen, was the former head of Tencent QQ's back-end services and led multiple system restructuring projects of Tencent QQ with hundreds of millions of simultaneous online users.

### *Attractive User and Client Base*

We have a young, active and rapidly expanding client base. As our client base grows, our existing clients are also generating wealth and seeking holistic investing services, providing two levers to our growth strategy and magnifying the size of our opportunity:

- *Young with Meaningful Potential to Generate Wealth:* Our clients are, on average, 34 years old and generally high earning. 44.7% of our clients work in internet, information technology or financial services industries. Our paying clients rapidly grow their account balances over time. Our total client asset balance increased from HK\$15.5 billion as of December 31, 2016 to HK\$44.4 billion (US\$ 5.7 billion) as of December 31, 2017, and further increased to HK\$54.2 billion (US\$ 6.9 billion) as of September 30, 2018, highlighting the organic tailwinds behind our established client base. We expect our clients, given their youth and trajectory, to continue generating wealth well into the future, growing their account balances with us over time.
- *Active and Loyal:* Our client base is deeply engaged. In September 2018, our users who were active on a daily basis spent an average of 26 minutes per trading day through our *Futu Niuniu* platform on our mobile application. Our client base is active. Among clients who traded during the nine months ended September 30, 2018, each client, on average, executed over 162 trades with a total trading volume of

---

## [Table of Contents](#)

HK\$6.2 million (US\$0.8 million) during the period. Finally, our client base is loyal; we retained over 95% of our paying client base on a quarterly basis in 2016 and have retained over 97% of our paying client base on a quarterly basis since the beginning of 2017. Each of these metrics improved meaningfully versus the prior year, driving revenues which are recurring-like in nature and creating viability which supports our strategic planning.

- *Rapidly Growing:* Through our *Futu NiuNiu* application we had 5.3 million users, of which over 457,000 were registered clients and over 124,000 were paying clients as of September 30, 2018. As of September 30, 2018, the numbers of our users, registered clients and paying clients grew 45.1%, 106.7% and 98.4%, respectively, as compared to the same as of September 30, 2017, demonstrating our ability to retain and attract users and clients as well as to convert our users to clients. We expect the strong growth of our client base to continue through conversion of our user base and our well-established user and client acquisition channels, including online and offline marketing and promotional channels, word-of-mouth referral and our corporate services.

### ***Significant Operating Leverage***

Our proprietary technology infrastructure and unit economics have positioned us to rapidly expand margins and strengthen our profitability as we continue to grow:

- *Proprietary Core Technology Infrastructure:* We have invested significantly to develop our core technology infrastructure. Our proprietary and modularized technology infrastructure allows us to add new products and enter new markets with moderate investment or fixed costs. Our research and development expenses as a percentage of our revenues dropped to 30.7% in 2017 from 70.8% in 2016 and further dropped to 18.1% for the nine months ended September 30, 2018, illustrating a driving factor behind our expanding margins.
- *Unit Economics:* The demographics and depth of engagement of our client base translate to high lifetime values. When matched against our efficient client acquisition, a function of our online marketing and promotional activities, word-of-mouth referrals and our corporate services, we deliver a payback period of less than six months since the beginning of 2017.

Our operating leverage is magnified by our high growth. We anticipate meaningfully expanding our operating margins over time as we continue to grow, strengthening our lifetime values by adding higher-margin, value-added services and controlling our acquisition and operating costs through targeted marketing and other efficiencies.

### **Our Growth Strategies**

Our business model, competitive strengths and licensing qualifications provide us multiple avenues of growth. We will continue to pursue our mission to re-define investing and build a digital financial institution through the following key strategies:

#### ***Grow and Monetize Our Client Base***

- *Grow our Client Base:* While we have quickly achieved a leading footprint and brand, the magnitude of the China and Hong Kong opportunities is enormous. Through targeted marketing, continued investments in our brand and expansion of our enterprise segment, we will work aggressively to build our client base.
- *Expand our Wallet Share:* We are working to expand our share of our clients' trading volumes and broader investing needs through execution excellence. By using every user and client touchpoint as an opportunity to demonstrate and reinforce our value proposition, we believe we can draw increasing allocations of trading volumes from our clients.

---

## [Table of Contents](#)

- *Monetize our User Base:* We intend to pursue avenues to improve conversion of our user base into clients and believe that data analytics is an important tool to accomplish this goal. Specifically, each point of user engagement provides insight into the user's investment objectives and risk tolerance, which we use to tailor an inviting investing experience.
- *International Expansion:* We intend to expand our physical presence, improving our ability to offer investing services in overseas markets but also nurturing an international client base of both Chinese and non-Chinese investors. For instance, in the first quarter of 2018, we opened our first office in the United States and intend to formally launch Futu MooMoo®, our trading platform designed specifically for U.S. investors, in the fourth quarter of 2018. Upon its launch, we will have adapted our technology infrastructure from Hong Kong to the U.S., reinforcing our ability to efficiently expand into new markets.

### ***Broaden Our Core Service Offerings***

- *Expand our Core Product and Service Portfolio:* We will continue to pursue ways to more broadly support our retail investors and maximize client wallet share, in particular by selectively adding new service offerings to our existing comprehensive portfolio. Our success in launching our margin financing service makes us confident that we will be able to develop and effectively cross-sell additional products and services such as fixed income funds and futures.
- *Add Trading Markets:* Our goal is to ultimately provide our users and clients with access to every trading market in the world. We currently provide access to three markets, and will seek to broaden in terms of geographies.
- *Drive our Enterprise Business:* We will continue to invest in our enterprise business, as a source of both revenue diversification as well as a retail investor acquisition channel. In particular we believe our ESOP management service, with a small but growing client base that includes Tencent and Yixin, has the potential to meaningfully impact our growth trajectory while we continue to build out our dedicated team and resources. Meanwhile, we are exploring opportunities to export our technology to enterprise clients on a modular basis.

### ***Broaden Our Financial Services Footprint***

- *Wealth Management:* We intend to expand our investing footprint to include a broader suite of wealth management products and financial advice. In particular, we believe the user data we collect through our daily business operations as well as the vibrant interactive community we have built on our platform will allow us to provide highly tailored products and services.
- *Digital Banking:* We are applying for a digital banking license in Hong Kong. We believe banking products are a natural extension of brokerage in the spirit of building and preserving wealth.

### ***Invest in Our Platform***

- *Invest in Technology:* We will continue to invest in our technology, both to maintain one of the primary sources of our competitive advantage and also to facilitate the execution of our growth strategies. For instance, we are currently investing significantly to integrate new features and functions into our platform, launch a fully-digital United States offering, develop a digital banking infrastructure and enhance our ability to convert user and client data into actionable insights.
- *Invest in People:* People are the cornerstone of our business, and we will continue to ensure we have strong and experienced product managers, developers, and marketing and supporting staff. In particular, we are investing to grow our enterprise sales team, our product team and our research and development function.

---

## [Table of Contents](#)

- *Acquisitions and Investments*: We intend to selectively pursue acquisitions or investments where additive to our platform or capabilities. While our current default strategy is to develop core capabilities organically, in large part due to the importance of seamless integration with our technology systems, we will nonetheless explore inorganic means to extend our leadership position.

### **Our Milestone**

We have achieved the following since our inception in 2011:

- December 2011: Launched our proprietary Hong Kong securities trading system supporting the execution of securities trades within 0.0037 seconds
- October 2012: Obtained a Type 1 License for dealing in securities from the HK SFC and commenced the operation of our online brokerage business
- September 2014: Integrated with the U.S. capital markets and began offering real-time stock quotes on major U.S. exchanges
- October 2016: Became one of the first brokerage companies globally to offer free real-time Level II Hong Kong stock quotes to China-based clients, according to Oliver Wyman
- January 2018: Registered in the U.S. as the broker-dealer and become a FINRA member in the U.S. and subsequently opened an office in Palo Alto, California
- July 2018: Became the first licensed brokerage company to provide completely online-based trading account opening services among leading players in Hong Kong

### **Our Platform**

#### *Overview*

We operate a leading technology-driven online brokerage services platform in Hong Kong and have been licensed in Hong Kong by the HK SFC for our securities business since 2012. We have obtained from the HK SFC a Type 1 License for dealing in securities in 2012, which, among other activities, allows us to engage in trading and broking of securities and engaging in securities margin financing activities for our clients. We have also obtained from the HK SFC a Type 2 License for dealing in future contracts, a Type 4 License for advising on securities, a Type 5 License for advising on futures contracts and a Type 9 License for asset management. For more details on our licenses, see “—Licenses” and “Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong—Types of regulated activities.”

Our platform allows investors to trade securities in various markets and surrounds this core trading functionality with a variety of products and services designed to facilitate the investing process. Specifically, our platform allows investors to execute equity and equity-related trades quickly and securely with access to margin financing. Around this core functionality, our platform provides real-time stock quotes, market data and news as well as an interactive investor community where our users and clients can exchange investment views and ideas. Our platform is accessible digitally through our *Futu NiuNiu* mobile app. We also offer several tailored desktop applications and websites as well as our Futu ESOP Management System.

We serve both users and clients. Our user base has grown from 3.2 million as of December 31, 2016 to 3.9 million as of December 31, 2017 and further to over 5.3 million as of September 30, 2018. Our MAUs reached 304,660 in December 2017 and 481,776 in September 2018, representing an increase of 73.7% and 96.4% from the same month of 2016 and 2017, respectively. Our average DAUs reached 111,109 in December 2017 and 169,598 in September 2018, representing an increase of 143.0% and 106.3% from the same month of 2016 and 2017, respectively. Our user base is a critical source of data for our platform, a pipeline for growing our client base and the foundation of our social community.

---

## [Table of Contents](#)

We define “registered clients” or “clients” as users who open one or more trading accounts, and “paying clients” as clients with assets in their trading accounts. Our client base has grown rapidly from 148,320 as of December 31, 2016 to 286,502 as of December 31, 2017 and further to 457,323 as of September 30, 2018, of which 124,809 were paying clients.

### *Platform Cornerstones*

We aim to broadly provide a superior and comprehensive investing experience through the following three cornerstones:

- *Convenience*: digitized, seamless with excellence in execution.
- *Connectivity*: interactive and engaging.
- *Stability*: reliable and secure.

### *Convenience*

We have designed every step of our investing experience, from sourcing and researching ideas to trade execution and subsequent portfolio management, with a goal to create a simple and convenient experience. We identify the hurdles that investors, particularly retail investors, face along the investing journey, and we strive to mitigate inconvenience and information asymmetry through our platform with data and technology. For example:

- we digitally execute all brokerage services, including trade execution, cross-market funding, clearing and settlement;
- we were the first brokerage company in Hong Kong to offer completely online-based trading account opening service among leading players;
- our users and clients can access our platform anytime through a unified account on multiple devices, including Apple and Android devices as well as Windows- or Mac-based desktop operating systems; and
- we focus on trade excellence through advanced technology and general infrastructure. In 2017, on average, a client trade was executed in 0.0037 seconds.

### *Connectivity*

We are reinventing how retail investors discover and execute investment opportunities, particularly by offering a social community that has become an integral part of our platform. We have created a medium by which users, investors, companies, analysts, media and key opinion leaders connect and interact as participants of a community. Major interactive tools and functions of our *NiuNiu Community* include *NiuNiu Classroom*, *NiuNiu Live Broadcast*, *NiuNiu Post* and *NiuNiu Articles*.

Our interactive tools drive a community experience built on a lively and dynamic venue for exchanging investment ideas and experiences. We leverage in-house and external resources to publish investment content on our platform through multiple formats, including short-form videos, recorded online lessons and chat rooms. These tools and functions allow our users and clients to review content as well as interact with each other, opening up vibrant avenues for an active exchange of ideas and information. We believe that community engagement serves to break down barriers to investing and promote more investment transactions. For example, in September 2018, on average, a socially active client, defined as a client who traded on our platform and visited our *NiuNiu Community* at least ten days during the month, traded 50 times, while a non-socially active client, defined as a client who traded on our platform at least once and visited our *NiuNiu Community* less than ten days during the month, traded 20 times.

---

## [Table of Contents](#)

Our community platform allows us to generate valuable feedback in terms of observing the behavior of our users and clients and also through soliciting direct feedback from our most active users and clients, with whom we have, in many instances, direct lines of communication regarding their investing experience. This allows us to identify the pain points in our workflows and improve our platform, often in real time, contributing further to our user and client engagement and stickiness.

### *Stability*

We recognize that investing is a meaningful component of our clients' broader wealth management, for which the reliability and security of our platform is critical. Those attributes differentiate us from other market players. For example:

- our platform features an automated multi-level protection mechanism to ensure the services and functions we deliver to our users and clients are secure;
- we have adopted strict security policies and measures, including encryption technology and a two-factor authentication function, to protect our proprietary data such as clients' personal information and trading data;
- our cloud technology allows us to process large amounts of data in-house, which significantly reduces the risks involved in data storage and transmission;
- we back up our data at different servers spread across different locations;
- we process and execute all of our orders and transactions electronically, greatly minimizing risks associated with human error while maintaining the stability of our platform. Our overall system has achieved 99.98% availability rate in the first half of 2018; and
- our proprietary technology system analyzes and predicts malicious attacks and enables us to respond to challenges and attacks promptly.

---

## Table of Contents

### Our Services

We provide our users and clients a comprehensive set of services throughout their investing experience. Our core services include trade execution and margin financing. We surround our core offerings with a variety of value-added services, many of which we provide free of charge, to address our clients' broader brokerage needs as well as increase general client engagement. The following diagram illustrates the comprehensive services we provide to our users and clients:



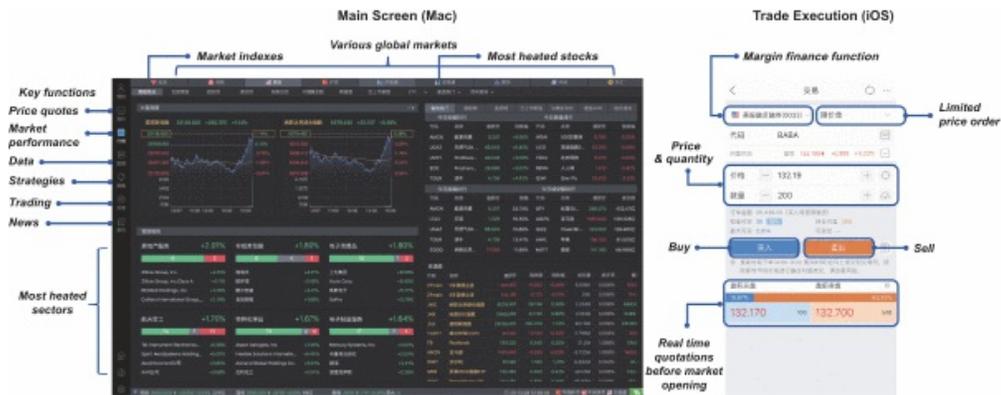
### *Trading, clearing and settlement*

We provide trading, clearing and settlement services beginning with account opening and extending through portfolio management.

We operate our securities brokerage business through Futu Securities International (Hong Kong) Limited, or Futu International Hong Kong, our wholly-owned subsidiary incorporated in Hong Kong, which is a licensed company permitted by the HK SFC to carry out securities dealing and is regulated by the Securities and Futures Ordinance. We were granted a Type 1 License for dealing in securities in 2012 and have become a participant of the Stock Exchange of Hong Kong Limited as a licensed broker since then. See “—Licenses.”

## Table of Contents

The screenshots below illustrate the main screen for trading, clearing and settlement and the trade execution interface on our platform:



### Account Opening

Opening a brokerage account has historically been a time-consuming and paper-intensive process, both for investors and brokerages. In developing our platform, we intended to break down this point of friction and meaningfully improve the account opening process. We believe that a significant driver of our client base growth is our ability to reduce unnecessary friction in the account opening process. In 2017 and the nine months ended September 30, 2018, we opened over 138,000 and 170,800 new accounts, respectively, representing a 70.1% and 134.3% increase as compared to approximately 81,200 and 72,900 new account openings in 2016 and the nine months ended September 30, 2017, respectively. We are the first licensed brokerage company to provide 100% online-based trading account opening services among leading players in Hong Kong, and we provide this functionality through our *Futu NiuNiu* platform, which allows an application to be completed in as little as five minutes.

For investors who are residents in Hong Kong, the two steps involved in opening trading accounts with us are set forth below:

- **Step 1: Online application.** Users of our *Futu NiuNiu* platform, either through our mobile or desktop application, can click an embedded link to submit an online account opening application by following simple instructions. Users are required to submit personal information, employment history, financial conditions, source of funds and other related information. Users must also read and consent to a standard client agreement and other required documents and review a disclaimer video which discloses trading risks presented by our licensed personnel. The online application process can typically be completed in less than five minutes.
- **Step 2: Verification procedures.** Upon receiving a completed online application, our automated risk management system will proceed to verify the applicant's identity. If the prospective client chooses to complete the verification procedures online, in accordance with the HK SFC rules promulgated in July 2018, we will require him or her to (i) submit a copy of his or her Hong Kong photo identification, Hong Kong residential address proof and other relevant identification documents, (ii) link the trading account to be opened with his or her personal bank account opened with a qualified bank in Hong Kong, and (iii) transfer no less than HK\$10,000 into the trading account from that personal bank account. Once the prospective client's bank account information and other submitted documents match the information submitted during the online application, the online identification verification will be completed and the trading account will be automatically opened. We also offer traditional offline

---

## [Table of Contents](#)

verification, where a prospective client may meet a member of our verification team and conduct the abovementioned verification process with paper copies of critical documents. The prospective clients can also mail to us a check in the amount of HK\$10,000 or more together with relevant identification documents to conduct verification.

Our prospective clients who are residents in China can also open Hong Kong trading accounts online. Online verification procedures for residents in China can be completed once the information of a prospective client's PRC identification matches the information in the government identification database and linked to his or her debit card opened with a China-based bank and other submitted documents. For details of the verification procedures for China-based clients, see "—Risk Management—Brokerage Service Risk Management." As the technologies and practices in connection with online trading accounts opening services are in early stages of development, we are subject to evolving laws, regulations, guidelines, and other regulatory requirements with respect to our online account opening procedures. See "Risk Factors—Risks related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements in Hong Kong, non-compliance with which, may result in penalties, limitations and prohibitions on our future business activities or suspension or revocation of our licenses and trading rights, and consequently may materially and adversely affect our business, financial condition, operations and prospects. In addition, we are involved in ongoing inquiries and investigations by the HK SFC" and "Risk Factors—Risks related to Our Business and Industry—Our current client online account opening procedures do not strictly follow the specified steps set out by the relevant authorities in Hong Kong."

We also offer an automated and streamlined process to open additional trading accounts for trading securities of companies listed on the major stock exchanges in the U.S. or securities of companies qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect, either simultaneously during the account opening process or after they have opened their first Hong Kong trading accounts with us. The "Hong Kong, Shanghai and Shenzhen Stock Connect" is a unique collaboration between the Hong Kong, Shanghai and Shenzhen stock exchanges, which allows international and China-based investors to trade securities in each other's markets through the trading and clearing facilities of their respective home exchange.

### *Trade execution*

Once a client has opened a trading account they may place orders on our platform. Placing an order is simple and intuitive and involves identifying the securities and the size of the trade, either in terms of the number of shares or the value of the trade in instances where fractions of a share can be traded.

The trade execution process is entirely online and automated. We aggregate orders simultaneously and form trading instructions which are delivered to respective exchanges. As we are a licensed broker in Hong Kong with integration into the trading systems of the Hong Kong Stock Exchange and the CCASS clearing system, we manage all steps involved in processing securities transactions independently for securities listed on the Hong Kong Stock Exchange or qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect. These automated steps include order confirmation, receipt, settlement, delivery and record-keeping. Additionally, we had 100 throttling controllers connected to the trading system of the Hong Kong Stock Exchange as of September 30, 2018, allowing us to execute a large amount of trading transactions simultaneously.

For securities traded on the major stock exchanges in the U.S., we aggregate trade instructions from clients and, without disclosing underlying client names or fund details, collaborate with qualified local third-party brokerage companies for execution and settlement. From the client's perspective, the process is seamless as we handle all client communications and touchpoints, including delivery and receipt of funds.

For trading securities of companies listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange, we currently collaborate with a leading Chinese brokerage company which allows our clients to

[Table of Contents](#)

access the online trading system of such Chinese brokerage company simply by logging into our platform. In order to complete trading transactions of securities listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange, clients need to register a trading account separately with the Chinese brokerage company, who will then handle the trading, clearing and settlement of all the client transactions. We only serve as an access point for the trading systems of the Chinese brokerage company and we do not execute any orders placed by our clients with respect to securities listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange.

For securities listed on the Hong Kong Stock Exchange and the major stock exchanges in the U.S., our clients are able to sell their securities through our platform on the same day of stock purchase. For securities qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect, our clients are able to sell their securities through our platform one trading day after purchase.

As a result of the operational efficiencies afforded by our technology, we are able to sustainably charge a lower brokerage commission rate for online trading as compared to most of our competitors. In general, our revenues from securities brokerage services includes brokerage commissions and platform service fees from our clients, which are recognized on a trade-date basis when the relevant transactions are executed. Depending on the specific securities traded, we charge the following commissions and fees to our clients:

Trading Markets	Commissions and Fees		
	Brokerage Commissions	Platform Service Fees	Others Fees
Hong Kong Stock Exchange	<b>Plan 1(1)</b> : 0.05% of the total trading volume (with a minimum charge of HK\$50)	—	Transaction clearing fees at 0.005% of the total trading volume, including 0.002% being charged on behalf of the clearing house, and other government charges on behalf of the government
	0.03% of the total trading volume (with a minimum charge of HK\$3)	<b>Plan 2(2)</b> : HK\$15 for each transaction	Transaction clearing fees and other government charges on behalf of the clearing house and the government
<b>Plan 3(2)</b> : ranging from HK\$1 to HK\$30 per transaction based on the number of transactions executed per month			
Major U.S. Stock Exchanges	<b>Plan 1(1)</b> : US\$0.01 per share/ADS (with a minimum charge of US\$1.99)	—	Transaction clearing fees at US\$0.003 per share/ADS and other government charges on behalf of the clearing house and the government
	<b>Plan 2(2)</b> : US\$0.0049 per share/ADS (with a minimum charge of US\$0.99 and a maximum charge of 0.5% of the total trading volume)	US\$0.005 per share/ADS (with a minimum of US\$1.0 per transaction and a maximum charge of 0.5% of the trading volume)	
	<b>Plan 3</b> : US\$5 per transaction	—	

[Table of Contents](#)

Trading Markets	Commissions and Fees		
	Brokerage Commissions	Platform Service Fees	Others Fees
<b>The Hong Kong, Shanghai and Shenzhen Stock Connect</b>	0.01% of the trading volume of each transaction (with a minimum charge of RMB5)	RMB15 per transaction	Transaction clearing fees and other government charges on behalf of the clearing house and the government

Notes:

- (1) available only to clients who opened trading accounts with us before October 10, 2017  
(2) available since October 10, 2017

In addition, we facilitate the trading of derivatives, such as warrants and callable bull/bear contracts, or CBBC on the Hong Kong markets and options on the U.S. markets. We also provide dark pool trading services and new share subscription services in relation to IPOs on the Hong Kong Stock Exchange. In addition, we have started providing API services which allow clients to trade through our platform using their own program.

In 2017, the total value for transactions executed on our platform with respect to securities listed on the Hong Kong Stock Exchange and the major stock exchanges in the U.S. reached approximately HK\$299.0 billion (US\$38.2 billion) and HK\$218.9 billion (US\$28.0 billion), respectively, compared to HK\$106.0 billion and HK\$89.8 billion in 2016. In the nine months ended September 30, 2018, the total value for transactions executed on our platform with respect to securities listed on the Hong Kong Stock Exchange and the major stock exchanges in the U.S. reached approximately HK\$397.4 billion (US\$50.8 billion) and HK\$280.4 billion (US\$35.8 billion), respectively, compared to HK\$180.2 billion and HK\$156.8 billion in the same period in 2017. The brokerage commission and handling charge income we earned for securities traded on the Hong Kong Stock Exchange and the major stock exchanges in the U.S. accounted for 33.8% and 25.6% of our total revenues in 2017, respectively, and accounted for 29.9% and 20.5% of our total revenues in the nine months ended September 30, 2018, respectively. As of December 31, 2016, 2017 and September 30, 2018, the total balance of client assets was HK\$15.5 billion, HK\$44.4 billion (US\$5.7 billion) and HK\$54.2 billion (US\$6.9 billion), respectively.

The following table shows our daily average revenue trades for the relevant periods:



**Margin financing and securities lending services**

Our margin financing and securities lending services provide real-time, cross-market securities-backed financing to our clients. We have grown these services rapidly since introduction, a reflection, we believe, of both our ability to cross-sell as well as our clients' receptivity to increasingly sophisticated investing tools delivered seamlessly. As of September 30, 2018, 34.4% of our clients who had traded on our platform had used our margin financing and securities lending services.

We currently offer margin financing to clients who trade securities listed on the Hong Kong Stock Exchange, the major stock exchanges in the U.S. as well as qualified securities under the Hong Kong, Shanghai and Shenzhen Stock Connect. All financing extended to our clients is secured by acceptable securities pledged to

---

## [Table of Contents](#)

us. Our trading system can automatically pledge cross-market account assets so that the value in a client's multiple trading accounts, which may include cash in different currencies and acceptable securities listed on the three markets, will be aggregated when calculating the value of the client's collateral. In particular, this provides significant efficiencies as it eliminates the costs and procedures involved in cross-market currency translation or exchange.

Our clients are eligible for margin financing services when they hold securities that are acceptable as pledges to us in their accounts. The credit line for each eligible client is determined based on the securities across all of his or her trading accounts. The margin financing services for eligible margin financing clients are activated automatically, when the funds in their accounts are not sufficient to purchase the desired securities and there are still sufficient balance in their credit lines.

A list of securities acceptable as collateral to us and their respective margin ratios are regularly updated and shared with our clients. Our risk management team determines the margin ratio for each of the acceptable securities based on the trading frequency, historical price fluctuations and general market volatility. We also reference the financing terms of major financial institutions in establishing our margin ratios, and we typically find our margin requirements to be lower. We believe this has differentiated our risk controls. Our margin ratios are monitored in real-time and our risk management team reviews and adjusts the margin ratio for each acceptable security on a regular basis and more frequently in the case of a significant and rapid price decline. See “—Risk Management—Margin Financing Risk Management.”

We charge an annualized interest rate on margin financing. We launched our margin financing service for securities listed on the Hong Kong Stock Exchange in July 2016, and charged an annualized interest rate on margin financing at 6.8% in 2016 and in 2017. We launched our margin financing service for securities listed on the major stock exchanges in the U.S. in February 2017, and charged an annualized interest rate on margin financing at 4.8% since then. We charged an annualized interest rate for qualified securities under the Hong Kong, Shanghai and Shenzhen Stock Connect at 8.8% since we launched such business in July 2018. In accordance with our risk control policy, the maximum aggregated financing a client can obtain is HK\$20 million for acceptable securities listed on the Hong Kong Stock Exchange, US\$2 million for acceptable securities listed on the major stock exchanges in the U.S. and RMB6 million for qualified securities under the Hong Kong, Shanghai and Shenzhen Stock Connect. In 2016, 2017 and the nine months ended September 30, 2018, our average margin balance, calculated based on our margin balance on the last date of each month during the year, was HK\$103.4 million, HK\$1,259.4 million (US\$160.9 million) and HK\$3,991.2 million (US\$510.0 million), respectively.

For clients who trade securities listed on the major stock exchanges in the U.S., we offer securities lending services by lending securities we obtain from our securities lending partner. This service allows our clients to pursue short-selling strategies. To borrow securities, our clients must pledge cash or acceptable securities from in-house trading accounts. We charge our clients an annualized interest rate on behalf of our securities lending partner, plus an approximate 3% premium which we earn as a handling fee. We collect interest on behalf of our securities lending partner from our clients.

When we launched our margin financing business, we financed mostly from our own working capital and shareholder loans. Since November 2015, however, we have diversified the source of our financing through collaboration with our financial institution partners where we can combine collateral from our clients into portfolios and pledge the portfolios to financial institutions for commercial loans. As of September 30, 2018, 93.3% of margin financing was financed through our financial institution partners. For margin financing services related to securities listed on the Hong Kong Stock Exchange, we have entered into loan facility agreements with commercial banks in which we agree on the maximum facility limit, maturity and annualized interest rates. We typically pay annualized floating interest rates from 1.5% to 2.5% above a benchmark interest rate index, such as the London Interbank Offered Rate (LIBOR) or Hong Kong Interbank Offered Rate (HIBOR). The interest periods of our loan facilities range from one week to six months, and we are obliged to repay or re-borrow each

---

## [Table of Contents](#)

loan on the last day of its applicable interest period. The banks can typically terminate, cancel or modify the facilities at their discretion. The loan facility agreements are typically governed by the laws of Hong Kong. For securities listed on the major stock exchanges in the U.S., a third-party brokerage company we partner with for trade execution and settlement also extends to us margin financing credit on an aggregate basis, which we then distribute to our clients based on their orders. We typically pay an annualized interest rate from 2.5% to 3.7% depending on the size of the loan balance. The business agreement we have entered into with such partner has an indefinite term and can be terminated by either party at any time. The agreement is governed by the laws of Hong Kong.

As of December 31, 2016 and 2017 and September 30, 2018, our margin financing balance was HK\$126.2 million, HK\$2,865.0 million (US\$366.1 million) and HK\$3,600.3 million (US\$460.1 million), respectively, and our securities lending balance was nil, HK\$73.0 million (US\$9.3 million) and HK\$353.0 million (US\$45.1 million), respectively. For the years ended December 31, 2016 and 2017 and the nine months ended September 30, 2018, our interest income derived from margin financing and securities lending business was 2.0%, 21.0% and 30.1% of our total revenues, respectively. We charge brokerage commission fees and platform service fees on margin trading and short selling. See “—Our Services—Trading, Clearing and Settlement.”

### ***Market data and information services***

#### *Market Data*

We provide real-time stock quotes across the China, Hong Kong and the United States equity markets. Our quotes are free for all China-based clients as well as for Hong Kong-based clients whose transaction frequency or account balance exceeds a certain threshold.

We provide a number of advanced and intuitive tools which allow our users and clients to customize the manner in which they monitor the capital markets. For instance, they can filter the broader market across a range of criteria including industry, valuation, trading volume and price volatility over a certain period of time, which provides a unique opportunity to quickly identify market swings or dislocations. These filters are available across markets so our users and clients can monitor multiple markets simultaneously.

On an individual company basis, users and clients are able to review detailed fundamental and technical analyses based on information available on our platform, including monitoring recent transaction details such as trading volumes by major brokers, viewing analyst ratings and target prices, reviewing operating and financial metrics, and reading compiled news and other research and company specific content.

Compared to dispersed or fee-based market data traditionally provided by other market players, we believe our tools and market data help our users and clients make informed investing decisions more easily.

#### *Information Services*

We distill investment information and trends into engaging, accessible and diversified content, guiding investors along the investing experience and helping to simplify the decision making process.

Our information services generally include real-time news alerts, such as earnings releases and corporate announcements, topical industry or company-level deep dives and proprietary data flows such as our compiled IPO pipeline. We deliver our content across different formats including short-form news, graphics and essays. Content is grouped by over 20 animated tags that facilitate easy searches and allow our users and clients to customize information feeds. As a user or client spends more time on our platform, we are able to employ artificial intelligence to develop targeted content recommendations which we have found to be effective and helpful to enhance user engagement.

## Table of Contents

We aggregate and curate our content through an internal content creation team and through collaboration with third-party resources, including leading international news agencies and market centers. The screenshots below illustrate the main information service content available on our platform:



### User community and social interaction functions

We improve the investing experience of our users and clients by facilitating a social user community, *NiuNiu Community*, embedded within our *Futu NiuNiu* platform. *NiuNiu Community* serves as an open forum for users and clients to share insights, ask questions and exchange ideas. Specifically, *NiuNiu Community* offers the following unique features:

- community diversity, as users and clients can interact directly with their peers, company executives and thought leaders within the investing community, such as financial journalists and academics;
- extensive content, ranging in complexity from investing basics to sophisticated analytical guides for professional investors;
- digital delivery, as all our content is designed for digital consumption and delivered through diversified media formats, such as short-form videos and presentation slides;
- gamification, as we employ game design elements within our platform such as investment and engagement scoring, which serves to simulate the investing experience and better prepare our users and clients for real-world investing; and
- platform influence, as we use *NiuNiu Community* as an important source of both direct (communicated) and indirect (observed) feedback that we use to consistently evolve our platform.

## Table of Contents

The screenshots below illustrate the main functions of *NiuNiu Community*:



### Corporate Services

We help corporate clients establish and administer the platforms of their employee stock option plans (ESOP). In this capacity we are able to nurture relationships with both corporate clients and their employees who become our retail clients, serving the dual purpose of diversifying our revenues and acquiring retail clients.

- **Corporate Engagement.** We help corporate clients execute and administer employee stock incentive plans. This includes all workflow and administration surrounding ESOP fulfillment, including employee communications and records management.
- **Investor Engagement.** Through our corporate engagement, we are introduced to potential retail clients, many of whom we convert into clients over time. We provide employees of our corporate clients with an online platform to review award agreements, monitor and exercise options and restricted share units (RSUs) and manage associated tax liabilities. By opening trading accounts, employees of our corporate clients are able to receive and manage the proceeds from their exercised options and RSUs.

We have been appointed as the ESOP program administrator by 14 and 24 corporate clients as of September 30, 2018 and as of the date of this prospectus, respectively. The total value of unvested RSUs and options under these ESOP programs is approximately HK\$7 billion as of the date of this prospectus. We have on-going conversations with over 150 Chinese new economy companies regarding our ESOP services.

## Table of Contents

In addition, our corporate services have served as an entry point for distribution of shares from our corporate clients' initial public offerings on the Hong Kong Stock Exchange. We have worked with seven and 14 corporate clients as of September 30, 2018 and as of the date of this prospectus, respectively, to distribute their shares to high-quality retail investors through our distribution services during their initial public offerings. We have recently served as a joint bookrunner for a number of high profile initial public offerings on the Hong Kong Stock Exchange of our corporate clients, including Xiaomi and Meituan. The screenshots below illustrate an example of our corporate services at different stages of an IPO process:



## Our Users and Clients

### Demographic

As of September 30, 2018, we had 5.3 million users on our platform, among which more than 457,000 were our registered clients and more than 124,000 were paying clients. As of September 30, 2018, the majority of our registered clients and paying clients were residents in China. The number of our users are determined based on the user accounts registered with our *Futu NiuNiu* applications or websites, among which users who have opened trading accounts with us are defined as registered clients and clients who have assets in their trading accounts are defined as paying clients. Since the remaining user base of 4.8 million as of September 30, 2018 are yet to be our registered clients, we believe such large user base demonstrates our significant potential to convert these users into our registered and paying clients, which contribute to the growth of our trading volume and ultimately drive our revenues. As we expand our business in the future, leveraging our large user base, we will continue to unleash the full potential of our platform and explore more monetization opportunities. For example, we may further monetize our user traffic through new business initiatives such as targeted advertisement. In addition, by providing free market data and information, a socially engaged online community and superior user experience on our platform, our user and client base has grown rapidly by existing users' word-of-mouth referral, which has enabled us to promote our brand with relatively low marketing costs.

### Users

Our users engage *Futu NiuNiu* by downloading our mobile or desktop applications, or visiting our website, and registering a user account. Users are able to receive market data, selected research and other information services and engage in the *NiuNiu Community* free of charge.

Our user base has grown from 3.2 million as of December 31, 2016 to 3.9 million as of December 31, 2017 and further to 5.3 million as of September 30, 2018. We had 481,776 MAUs in September 2018, as compared to

---

## [Table of Contents](#)

304,660 in December 2017. In September 2018, we had an average of 169,598 DAUs, compared to 111,109 in December 2017. In September 2018, our users who were active on a daily basis spent an average of 26 minutes per trading day through our *Futu NiuNiu* platform on our mobile application.

Users who have not opened trading accounts with us represent an important pipeline for our client acquisition. For the nine months ended September 30, 2018, 63.9% of our new clients were converted from our existing users.

### *Clients*

Our client base has grown from 148,320 as of December 31, 2016 to 286,502 as of December 31, 2017 and further to over 457,323 as of September 30, 2018. In September 2018, among the clients who visited our platform at least once, a client visited on 14.2 days on average. Since January 2017, we have maintained a paying client churn rate below 3% on a quarterly basis.

Our clients are generally high earning. As of September 30, 2018, approximately 44.7% of our clients worked in internet, information technology or financial services industries. In addition, our clients are generally young. As of September 30, 2018, the average age of our clients was 34. The demographics of our client base are substantially the same as our broader user base.

### *User and client acquisition*

We grow our client base mainly through online and offline marketing and promotional activities, word-of-mouth referrals and our corporate services.

For our online and offline marketing and promotional activities, we from time to time acquire users and clients through cooperation with external marketing channels, such as social media platforms, internet TV and short-form video platforms, search engines, key opinion leaders and offline marketing channels. We also conduct promotions and marketing campaigns on our platform, such as offering free commissions to clients who open trading accounts with us within a certain period of time and promoting client referrals.

For the nine months ended September 30, 2018, approximately 18.5% of our new clients were acquired through corporate services. For example, through providing ESOP services, we are able to directly connect with the employees of our corporate clients once an employee ESOP account has been established.

### *User and client experience*

We have developed our proprietary and customized customer service system to connect our users and clients with our customer service staff and technology experts. Users and clients are able to reach our customer service representatives and technology specialists around the clock. Our customer service representatives receive regular training regarding our platform and services as well as critical communication skills such as managing client complaints and other troubleshooting. We document user and client behavior, as well as complaints and feedback, and apply advanced analytical methods to leverage our datasets to better anticipate further areas of improvement. All clients who raise complaints and suggestions will receive feedback within 24 hours.

We proactively seek user and client feedback. For example, we initiate online communications and activities on major social media and our *NiuNiu Community* to seek feedback from our users and clients about their investing experience. We reach out to our most active clients to discuss their experience with our platform and solicit ways in which we can improve.

### **Technology**

We have developed a proprietary and highly automated technology infrastructure including integrated account, trading, clearing, risk management and business and operation systems, to support each aspect of our

---

## [Table of Contents](#)

business. The purpose-built nature of our technology provides two crucial advantages. First, our platform is adaptable and we can react quickly to industry and regulatory change. Second, our platform is highly scalable. Our client base grew by 93.2% while our headcount only increased by 39.9% from December 31, 2016 to December 31, 2017.

### ***Industry-leading integrated cross-market system***

We operate an easy-to-use and integrated cross-market system which allows our clients to execute trades on all three markets from a single platform. We developed this system internally, with unified functionality extending from core trading to risk management as well as multi-currency, multi-market real-time settlement. This allows our clients to effectively view the markets we serve as a unified market, and avoid many of the traditional frictions associated with cross-market trading.

We have developed an interconnected set of online brokerage process systems to support our cross-market trading function efficiently. Our system uses modular architecture to abstract all tasks and steps involved in the online brokerage process, configure new business processes and quickly support any evolving business needs. Our system features real-time advanced service-level-agreement (SLA) monitoring and quality monitoring services, and is able to ensure consistent superior client experience.

### ***Highly stable and scalable system***

We use distributed infrastructure as the foundation for our trading system, employing a number of interrelated servers in order to mitigate the risk of a single server disrupting the whole system. In the event an error occurs with any single server, our distributed technology ensures an immediate and automatic switch to additional servers to ensure continuous operation. Our overall system achieved a 99.98% availability rate in the first half of 2018, and our core servers are deployed in different locations as a matter of disaster avoidance and recovery.

Our platform adopts modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functionality of other components. If we experience a sudden surge in activity or trading volume, we can execute a system expansion within ten minutes and the overall architecture can support more than ten times the peak activity level of the current platform.

We utilize sophisticated user interface design technology and embed a number of modules in each user interface. By simply duplicating one specific existing user interface module as needed, we effectively improve the accuracy and efficiency of user interface development. At the same time, using modular design technology in our user interface development ensures the stability and consistency of UI performance and functionality among different user interfaces, which eventually improves user experience.

### ***Agile research and development capability***

Through the construction of research and development tools and components, we improve our research and development efficiency while ensuring quality and system stability. In the first half of 2018, our technology team released 39 new versions of our mobile app. To further improve research and development efficiency, we built our activity configuration system with configurable template abstraction for various routine operational activities. The average launch cycle and necessary manpower for such activities have been effectively reduced compared to traditional development methods.

In addition, we believe that our heavily tech- and research- and development-oriented employee structure lays a solid foundation for our ability to continually develop innovative solutions and enhance our existing service offerings. Our research and development teams are primarily organized into three teams, including a platform and trading development team, a client development team and a web development team. Our core

---

## [Table of Contents](#)

research and development team consists of experienced engineers and technology experts with five to ten years' experience in structure design supporting massive transactions, and the majority of them have work experience with leading internet and technology platforms in China. Most of our research and development personnel are based in Shenzhen, China.

### ***Cloud-based operating and computing, big data, AI and deep learning capabilities***

Our entire system is built and run on high capacity, secure and efficient cloud-based operating systems. We currently operate approximately 1,400 virtual servers built on five public clouds and 279 servers located in five self-built server rooms in China, Hong Kong and the United States. Due to the nature of our business and the services we offer, we have a high demand for storage and computing capacity. Specifically we store massive volumes of data generated and transmitted every second and we are constantly running algorithms to produce content recommendations.

In addition, we employ advanced analytical methods to create detailed user profiles based on users' actions such as posts, social engagement, trading habits and browsing history. We constantly update our user profiles, a process which is largely automated, and use the data and insights derived exclusively to further improve our services and user experience.

### **Risk Management**

We have established a comprehensive and robust technology-driven risk management system to manage risks across our business and ensure compliance with relevant laws and regulations. Our risk management committee formulates key risk management policies and procedures and consists of a compliance officer with eight years of experience in the legal profession, a certified accounting officer with the Hong Kong Institute of Certified Public Accountants with over ten years of experience in the financial industry, a risk officer who has prior experience in trading and settlement businesses, and a responsible officer with over seven years of experience in the brokerage industry. Our risk management committee empowers our risk management team, consisting of eight employees having relevant experience between three to ten years, to execute these policies and procedures.

Our risk management team meets regularly to examine credit, operational, compliance and enterprise risks and update guidelines and measures as necessary. Key tasks of our risk management team include client verifications, storage of client information, evaluation of clients' risk profiles, monitoring of infrastructure performance and stability, evaluation of risk concentrations, building and maintaining credit models, performing system-wide stress tests and conducting peer benchmarking and exogenous risk assessments. Our internal control, legal and compliance departments coordinate with our risk management team to jointly conduct regular and ad hoc audits on our business to ensure more effective internal control, daily operation, finance and accounting management and business operation.

### ***Brokerage service risk management***

We monitor client transactions on a real-time basis, seeking to identify any unusual or irregular trading activity. We have dedicated personnel to monitor account opening, security of funds and trading activities of clients and elevate any irregularities immediately. In accordance with the relevant laws and regulations regarding client funds custody, we are required to maintain accounts with recognized commercial banks for the deposit of our client funds for settlement. To prevent misappropriation of client deposits, we have centralized the storage of our clients' trading data. We have also centralized management of the securities brokerage trading systems and settlement systems to enhance the security of client deposits.

As part of our risk management practice, we operate a strict due diligence of client information during the "know your-client" process. Our account opening procedures are designed to ensure that our clients' account

---

## [Table of Contents](#)

opening information is accurate, sufficient and in compliance with applicable Hong Kong regulations and our internal control policies. For China-based clients, we collaborate with our third-party partners who are able to access the national citizen identity database of the Ministry of Public Security of China and the China Union Pay System to verify the identity and bank card information submitted by our prospective clients. For Hong Kong-based clients who apply to open trading accounts with us online, in addition to submitting personal identity information and documents, we require each prospective client to link his or her personal bank account opened with a qualified bank in Hong Kong with the trading account to be opened with us and transfer no less than HK\$10,000 to avoid fraud. For offline account opening application, our verification staff will meet the prospective clients in person and interview them to verify the information submitted.

We have established rigorous anti-money laundering internal control policies covering client identification, record keeping of client identity information and transaction records, reporting on large-sum and suspicious transactions, internal operation rules and control measures, confidentiality, training and publicity, anti-money laundering auditing, assisting investigation and execution as well as on-site inspections.

### ***Margin financing risk management***

We calculate margin requirements of each of our clients on a real-time basis across different markets and currencies. To ensure that the clients meet the margin requirements, we have adopted a margin call mechanism to control the overall risks involved in our margin financing business. A margin call requires that our clients pledge additional collateral in the form of either cash or acceptable securities to re-establish a minimum ratio of the value of the collateral to the amount of the margin loan balance.

A decline in the value of collateral may result in a margin call. Once a margin call is initiated, we will notify the client and request the client to increase pledged collateral or reduce exposure by liquidating all or some of the securities portfolio. If the client is unable to satisfy the margin call requirement within two trading days and the value of the collateral remains below the required level, normally we will automatically liquidate securities positions to facilitate margin compliance. In some cases, if the value of the collateral falls below the required level and deteriorates sharply, we may liquidate positions without giving prior notification to the client. Our risk management system monitors and manages clients' credit risks.

All collateral is displayed on liquidation monitoring screens that are part of the tools our technical staff utilizes to monitor the performance of our systems during the relevant market hours. At the same time our clients can also monitor, in real-time, the value of the collateral supporting their margin loans and will automatically receive a warning message when approaching a margin limit. This feature allows our clients to proactively manage their financed positions and avoid unnecessary or forced liquidations. We have not suffered any loss or failed to manage credit risk exposure since the launch of our margin financing business.

### **Social network community risk management**

We have adopted a number of measures to monitor and manage potential risks in connection with information disseminated on our *NiuNiu Community*. For example, we have an automatic filtering mechanism that prevents offensive, fraudulent and other inappropriate content from being posted to our platform. Moreover, we perform manual inspection of each post and live broadcast video uploaded to our *NiuNiu Community*, to ensure that content that is against our platform policies and applicable laws and regulations will be removed and responsible content creators are banned from posting going forward. In addition, we frequently share information on stock investment risks on *NiuNiu Community* to provide warnings against fraudulent activities and raise our users' risk awareness.

### **Data Security and Protection**

We have established a comprehensive security system, supported by our network situational awareness and risk management system. Our back-end security system is capable of handling massive malicious attacks to safeguard the security of our platform and to protect the privacy of our clients.

---

## [Table of Contents](#)

We have a data security team of engineers and technicians dedicated to protecting the security of our data. We have also adopted a strict data protection policy to ensure the security of our proprietary data. We encrypt confidential personal information we gather from our platform. To ensure data security and avoid data leakage, we have established stringent internal protocols under which we grant classified access to confidential personal data only to limited employees with strictly defined and layered access authority. We also set up a firewall to segregate our core user data and require strict access digital permission to access any core data throughout our entire operation. We strictly control and manage the use of data within our various departments and do not share any personal data of our users and clients with external third parties. We have measures in place to prevent staff from improperly using client information.

On the client side, we have developed a proprietary dual identification verification function to protect our clients' account security. Our clients can set up the dual identification verification function with their accounts to enhance their account security. Once the dual identification verification function is activated, if a client logs in to his or her account through a different device, both the account password and a dynamic verification code are required to be authenticated. In addition, the client can opt to type in both the transaction password and a dynamic password token to place a trading order on our platform. For the core data such as the client's account opening information and account assets, we segregate the core data from other data and store it in the "core data zone" built by isolated network. Any access to such core data requires the above dual identification verification process, thus ensuring that every data access has obtained the relevant client's prior authorization. This mechanism has greatly improved the security of our clients' sensitive data.

### **Intellectual Property**

As of September 30, 2018, we owned three computer software copyrights in China relating to various aspects of our operations and maintained over 60 trademark registrations inside China and over 40 trademark registrations inside Hong Kong. As of September 30, 2018, we had 18 patents granted in China. As of September 30, 2018, we had registered over five domain names, such as *futu5.com*, *futunn.com*, *futuholdings.com* and *futuresop.com*.

### **Marketing and Brand Promotion**

We have a marketing committee responsible for formulating our marketing and brand promotion strategies, which are refreshed on a monthly basis. This same committee then guides our dedicated marketing team to implement such strategies and handle our marketing and brand promotion activities. As part of our overall brand strategy, we collaborate with Tencent, our strategic partner and shareholder, to furthermore promote our brand.

We conduct digital advertising via search engines, app stores, advertising networks, video sharing websites, and microblogging sites. Our utilization of search engines is mainly through paid search, whereby we purchase key words and brand-link products. With the help of online advertising networks, we can run our advertisements through a variety of online media. We upload our promotional videos to popular video sharing sites. We also periodically send e-mails and SMS messages to our clients to highlight our platform's latest services and functions, promotional items and marketing events.

In addition, we host online seminars and lectures to enhance our brand recognition. We also conduct offline advertising via outdoor bulletin boards, magazines, campus promotions and television commercials. Our offline advertising plays an important role in building the image of our brand and generating public exposure.

### **Competition**

The market for online brokerage services is emerging and rapidly evolving. As one of the first movers in online brokerage market, we position ourselves as an online brokerage company based in Hong Kong with an expanded international footprint in the United States as well as strong background and abundant resources in

---

## [Table of Contents](#)

China. We currently compete with three types of competitors in this markets including (i) pure-play online brokerage companies; (ii) hybrid brokerage companies featuring a combination of online and offline channels and (iii) brokerage business units within commercial banks.

We compete primarily on the basis of:

- client base and client experience;
- technology infrastructure;
- research and development capabilities;
- security and credibility of the platform;
- operational compliance with applicable regulatory requirements; and
- brand recognition and reputation.

We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, many of our current or future competitors may have longer operating histories, greater brand recognition, stronger infrastructure, larger client bases or greater financial, technical or marketing resources than we do.

### **Licenses**

We conduct our business mainly in Hong Kong and are, therefore, subject to the relevant restrictions of the regulatory requirements of Hong Kong.

Due to the licensing requirements of the HK SFC, Futu International Hong Kong is required to obtain necessary licenses to conduct its business in Hong Kong. Futu International Hong Kong's business and responsible personnel are subject to the relevant laws and regulations and the respective rules of the HK SFC. Futu International Hong Kong currently holds a Type 1 License for dealing in securities, a Type 2 License for dealing in futures contracts, a Type 4 License for advising on securities, a Type 5 License for advising on futures contracts and a Type 9 License for asset management. Futu International Hong Kong is not required to apply for a Type 8 License in order to conduct margin financing business, as it is licensed to carry out Type 1 regulated activities. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong—Introduction." These licenses have no expiry date and will remain valid unless they are suspended, revoked or cancelled by the HK SFC. We pay standard governmental annual fees to the HK SFC and are subject to continued regulatory obligations and requirements, including the maintenance of minimum paid-up share capital and liquid capital, maintenance of segregated accounts, maintenance of insurance against certain specific risks, and submission of audited accounts and other required documents, among others. See "Regulation—Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong—Continuing Obligations of Licensed Corporations." Futu International Hong Kong has also been a stock exchange participant since October 29, 2012.

In addition, Futu Lending Limited is licensed under the Money Lenders Ordinance (Cap. 163) of Laws of Hong Kong to conduct money lending activities under its money lenders license. Futu Lending Limited is currently renewing its money lenders license with the relevant authorities in Hong Kong. The license is subject to renewal.

We are also subject to applicable laws and regulations in China and United States as we have business presence there. We have also obtained the approval from the FINRA as a member and is permitted to conduct broker-dealer business in the U.S., subject to regulations by the FINRA. We are currently applying for a clearing license in the U.S. with the U.S. Securities and Exchange Commission and a virtual banking license with the Hong Kong Monetary Authority. We will continue to obtain and maintain all the required licenses and approvals or make all the necessary filings with the competent authorities along with the expansion of our business in the future.

---

## [Table of Contents](#)

### Employees

As of September 30, 2018, we had a total of 561 employees. Among these employees, 500 employees were located in China, 58 employees were located in Hong Kong and three employees were located in the United States. Our employees who handle our online brokerage business are all based in Hong Kong. We had a total of 347 and 248 employees as of December 31, 2017 and 2016, respectively.

The following tables sets forth the number of our employees as of September 30, 2018 by function:

	As of	
	September 30, 2018	
	Number	%
<b>Functions:</b>		
Research and development	368	65.6
Customer services and operations	80	14.3
General and administration	72	12.8
Marketing	41	7.3
<b>Total</b>	<u>561</u>	<u>100.0</u>

Our success depends on our ability to attract, motivate, train and retain qualified personnel. We take pride in a genuinely transparent, efficient, and technology-focused corporate culture and embrace it as one of our fundamental strengths. We place great emphasis on our corporate culture to ensure that we maintain consistently high standards everywhere we operate. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team. We have established comprehensive training programs that cover topics such as our corporate culture, professional knowledge and skills related to our business operations and new initiatives, employee rights and responsibilities, team-building, professional behavior, job performance, leadership and executive decision-making. We are committed to making continued efforts to provide a better working environment and enhanced benefits to our employees.

We participate in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance and unemployment insurance, as required by laws and regulations in China. We are required under Chinese law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. We also provide low-interest loans to qualified employees as an incentive of their performance and loyalty. We also have a systematic performance evaluation system which provides the basis for human resource decisions such as remuneration adjustments, career promotion and talent cultivation.

We enter into standard labor contracts with our employees. We also enter into standard confidentiality and non-compete agreements with our senior management. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes. None of our employees are represented by labor unions.

### Insurance

We provide social security insurance including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits through a PRC government-mandated multi-employer

---

## [Table of Contents](#)

defined contribution plan for our China-based employees. We contribute to Mandatory Provident Fund and provide labor insurance and medical insurance for our Hong Kong-based employees. In accordance with the Securities and Futures (Insurance) Rules of Hong Kong, we have purchased and maintained insurance for any loss incurred by us due to any loss to our clients' assets in our custody that are caused by fraudulent conduct of our employees, robbery, theft or other misconduct. We do not maintain business interruption insurance or key-man insurance. We believe that our insurance coverage is adequate to cover our key assets, facilities and liabilities.

### **Properties and Facilities**

Our principal executive offices are located on leased premises comprising approximately 613 square meters in Hong Kong and approximately 6,537 square meters in Shenzhen, China. Our principal executive offices are leased from independent third parties, and we plan to renew our lease from time to time as needed.

Our servers are hosted in leased internet data centers in different geographic regions in Hong Kong and China. We typically enter into leasing and hosting service agreements with these internet data center providers that are renewed periodically. We believe that our existing facilities are sufficient for our current needs, and we will obtain additional facilities, principally through leasing, to accommodate our future expansion plans.

### **Legal Proceedings**

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management's time and attention. See "Risk Factors—Risks Related to Our Business and Industry—If we fail to protect the confidential information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-ins or other reasons, we may be subject to liabilities imposed by relevant laws and regulations, and our reputation and business may be materially and adversely affected," "Risk Factors—Risks Related to Our Business and Industry—We may be subject to intellectual property infringement claims, which may be expensive to defend and disruptive to our business and operations," and "Risk Factors—Risks Related to Our Business and Industry—We may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending ourselves against such claims or proceedings."

### **Ongoing Regulatory Actions**

We are subject to various regulatory requirements, including those specified in law, regulations and guidelines issued by the competent regulatory authorities in Hong Kong, including but not limited to the HK SFC.

Futu International Hong Kong is a licensed corporation under the SFO and may be subject to HK SFC inquiries and investigations from time to time. As of the date of this prospectus, Futu International Hong Kong is involved in certain ongoing inquiries and investigations initiated by the HK SFC concerning its client onboarding processes, anti-money laundering laws, practices relating to protection of client assets, and handling and monitoring client orders and trading activities. The HK SFC's inquiries and investigations remain ongoing and are subject to statutory secrecy under Section 378 of the SFO. Therefore, no additional details about them can be disclosed in this prospectus at this stage.

As the foregoing inquiries and investigations from the HK SFC remain ongoing, it is not possible for us to accurately predict if any disciplinary action will be taken against Futu International Hong Kong after the conclusion of the inquiries and investigations and, if so, the nature and extent of any such action. If, after the HK SFC's inquiries or investigations have been concluded, the HK SFC identifies misconduct or material non-

---

[Table of Contents](#)

compliance, the HK SFC can take various regulatory actions, which may include, among other things, reprimands, fines and/or suspension or revocation of licenses and trading rights and, if imposed, might materially and adversely affect our reputation, business, prospects and financial conditions. See “Risk Factors—Risks related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements in Hong Kong, non-compliance with which, may result in penalties, limitations and prohibitions on our future business activities or suspension or revocation of our licenses and trading rights, and consequently may materially and adversely affect our business, financial condition, operations and prospects. In addition, we are involved in ongoing inquiries and investigations by the HK SFC.”

## REGULATION

### Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong

As we provide online brokerage services primarily from our subsidiaries in Hong Kong, our business operations are subject to the laws of Hong Kong. The key laws and regulations which relate to our business and operations in Hong Kong are summarized as follows:

#### *Introduction*

The Securities and Futures Ordinance, including its subsidiary legislation, is the principal legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, and intermediaries and their conduct of regulated activities. In particular, Part V of the SFO deals with licensing and registration matters.

The SFO is administered by the HK SFC which is an independent statutory body in Hong Kong set up to regulate the securities and futures markets and the non-bank leveraged foreign exchange market in Hong Kong.

In addition, the Companies (Winding Up and Miscellaneous Provisions) Ordinance including its subsidiary legislation provides that the HK SFC is responsible for authorizing the registration of prospectuses for offerings of shares and debentures in Hong Kong and/or granting exemptions from strict compliance with the provisions in the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance. The SFO provides that the HK SFC is also responsible for authorizing certain securities (including the relevant offering documents) that are not shares or debentures.

The Hong Kong securities and futures industry (with respect to listed instruments) is also governed by the rules and regulations introduced and administered by the Stock Exchange and the Futures Exchange.

#### *Types of regulated activities*

The SFO provides a licensing regime where a person needs to obtain a license to carry on a business in any of the following regulated activities as defined in Schedule 5 to the SFO:

<u>License</u>	<u>Regulated activity</u>
Type 1:	Dealing in securities
Type 2:	Dealing in futures contracts
Type 3:	Leveraged foreign exchange trading
Type 4:	Advising on securities
Type 5:	Advising on futures contracts
Type 6:	Advising on corporate finance
Type 7:	Providing automated trading services
Type 8:	Securities margin financing
Type 9:	Asset management
Type 10:	Providing credit rating services
Type 11:	Dealing in OTC derivative products or advising on OTC derivative products <sup>(1)</sup>
Type 12:	Providing client clearing services for OTC derivative transactions <sup>(2)</sup>

#### Notes:

- (1) The amendments to the SFO in relation to Type 11 regulated activity are not yet in operation. The day on which the Type 11 regulated activity will come into operation will be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.
- (2) The Type 12 regulated activity came into operation on September 1, 2016 pursuant to the Securities and Futures (Amendment) Ordinance 2014 (Commencement) Notice 2016 (L.N. 27 of 2016), in so far as it relates to paragraph (c) of the new definition of

---

## [Table of Contents](#)

excluded services in Part 2 of Schedule 5 to the SFO. The licensing requirement with respect to Type 12 regulated activity is not yet in operation and the effective date will be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

As of the date of this prospectus, the following member of the Group were licensed under the SFO to conduct the following regulated activities:

	<u>Regulated Activities by Type of License</u>
Futu International Hong Kong	Type 1, Type 2, Type 4, Type 5 and Type 9(1)

Notes:

The following conditions are currently imposed on Futu International Hong Kong in relation to Type 9 regulated activity:

- (1) the licensee shall not provide a service of managing a portfolio of futures contracts for another person;
- (2) the licensee shall not conduct business involving the discretionary management of any “collective investment scheme” as defined under the SFO; and
- (3) the licensee shall only provide services to “professional investors” as defined under the SFO and its subsidiary legislation.

In addition to the above licenses granted to Futu International Hong Kong by the HK SFC, Futu Lending Limited also holds a money lenders license issued by the licensing court under the Money Lenders Ordinance, which allows it to provide loans to its clients in its ordinary course of business.

### ***Overview of Licensing Requirements under the SFO***

Under the SFO, any person who carries on a business in a regulated activity or holds itself out as carrying on a business in a regulated activity must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless any exemption under the SFO applies. This applies to a corporation carrying on a business in a regulated activity and to any individuals acting on behalf of that corporation in carrying on such activities, as further described below. It is an offense for a person to conduct any regulated activity without the appropriate license issued by the HK SFC.

Further, if a person (whether by itself or another person on his behalf, and whether in Hong Kong or from a place outside of Hong Kong) actively markets to the public in Hong Kong any services that it provides and such services, if provided in Hong Kong, would constitute a regulated activity, then that person is also subject to the licensing requirements under the SFO.

### ***Responsible Officers***

In order for a licensed corporation to carry on any of the regulated activities, it must appoint no less than two Responsible Officers for each regulated activity conducted by a licensed corporation, at least one of whom must be an executive director, to supervise each regulated activity.

An “executive director” of a licensed corporation is defined as a director of the corporation who (a) actively participates in or (b) is responsible for directly supervising, the business of a regulated activity or activities for which the corporation is licensed. Every executive director of the licensed corporation who is an individual must apply to the HK SFC to be approved as a Responsible Officer of such licensed corporation in relation to the regulated activities.

### ***Managers-in-Charge of Core Functions (“MICs”)***

A licensed corporation is required to designate certain individuals as MICs and provide to the HK SFC information about its MICs and their reporting lines. MICs are individuals appointed by a licensed corporation to be principally responsible, either alone or with others, for managing each of the following eight core functions of the licensed corporation:

- (a) overall management oversight;

---

## **Table of Contents**

- (b) key business lines;
- (c) operational control and review;
- (d) risk management;
- (e) finance and accounting;
- (f) information technology;
- (g) compliance; and
- (h) anti-money laundering and counter-terrorist financing.

The management structure of a licensed corporation (including its appointment of MICs) should be approved by the board of the licensed corporation. The board should ensure that each of the licensed corporation's MICs has acknowledged his or her appointment as MIC and the particular core function(s) for which he or she is principally responsible.

The MIC regime came into effect on April 18, 2017 but the HK SFC has granted licensed corporations a three-month grace period to comply with the new requirements. The grace period expired on July 17, 2017.

### ***Licensed Representatives***

In addition to the licensing requirements for corporations that carry on regulated activities, any individual who:

- (a) performs any regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business; or
- (b) holds himself out as performing such regulated function,

must separately be licensed under the SFO as a Licensed Representative accredited to his principal.

### ***Fit and Proper Requirement***

Persons who apply for licenses to carry on regulated activities under the SFO must satisfy, and continue to satisfy the HK SFC after the grant of such licenses by the HK SFC, that they are fit and proper persons to be so licensed. The Fit and Proper Guidelines issued by the HK SFC under section 399 of the SFO summaries certain matters that the HK SFC will generally consider when determining whether the applicant is a fit and proper person to be licensed under the SFO. In particular, Appendix I to the Fit and Proper Guidelines sets out additional fit and proper guidelines for corporations and authorized financial institutions applying or continuing to act as sponsors and compliance advisers.

Under the Fit and Proper Guidelines, the HK SFC will consider the following matters of the applicant in addition to any other issues as it may consider to be relevant:

- (a) the financial status or solvency;
- (b) the educational or other qualifications or experience having regard to the nature of the functions to be performed;
- (c) the ability to carry on the regulated activity competently, honestly and fairly; and
- (d) the reputation, character, reliability and financial integrity.

The HK SFC will consider the above matters in respect of the person (if an individual), the corporation and any of its officers (if a corporation) or the institution, its directors, chief executive, managers and executive officers (if an authorized financial institution).

---

## [Table of Contents](#)

In addition to the above, the HK SFC may also take into account of the following matters:

- (a) any decisions made by the Monetary Authority, the Insurance Authority, the Mandatory Provident Fund Schemes Authority or any other authorities or organizations performing similar functions as those of SFC (in the HK SFC's opinion) whether in Hong Kong or elsewhere in respect of the applicant;
- (b) any information relating to:
  - (i) any person who is or is to be employed by, or associated with, the applicant for the purpose of the regulated activity in question;
  - (ii) any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question; and
  - (iii) if the applicant is a corporation in a group of companies, any other corporation within the same group of companies or any substantial shareholder or officer of any such corporation;
- (c) whether the applicant has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions; and
- (d) the state of affairs of any other business which the person carries on or proposes to carry on.

### ***Continuing Obligations of Licensed Corporations***

Licensed corporations, Licensed Representatives and Responsible Officers must remain fit and proper at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations, as well as the codes and guidelines issued by the HK SFC.

Outlined below are some of the key continuing obligations of the licensed corporations within the Group under the SFO:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the HK SFC in accordance with the requirements under the FRR;
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong);
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong);
- issuance of contract notes, statements of account and receipts in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong);
- maintenance of proper records in accordance with the requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong);
- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong);
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong);
- payment of annual fees and submission of annual returns to the HK SFC within one month after each anniversary date of the license;

## Table of Contents

- notification to the HK SFC of certain changes and events in accordance with the requirements under the Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong);
- notification to the HK SFC of any changes in the appointment of MICs or any changes in certain particulars of MICs pursuant to the Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management dated December 16, 2016 issued by the HK SFC;
- compliance with the continuous professional training and related record keeping requirements under the Guidelines on Continuous Professional Training issued by the HK SFC;
- implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the HK SFC (the “AMLCTF Guideline”);
- compliance with the business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the HK SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the HK SFC and the Fit and Proper Guidelines;
- compliance with employee dealings requirements under the Code of Conduct for Persons Licensed by or Registered with the HK SFC, which requires licensed corporations to implement procedures and policies on employee trading, to actively monitor the trading activities in their employees’ accounts and their related accounts; and
- compliance with the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes, the Guidelines on Disclosure of Fees and Charges Relating to Securities Services and other applicable codes, circulars and guidelines issued by the HK SFC.

### *The Securities and Futures (Financial Resources) Rules of Hong Kong*

Subject to certain exemptions specified under the FRR, a licensed corporation is required to maintain minimum paid-up share capital in accordance with the FRR. The following table sets out a summary of the key requirements on minimum paid-up share capital under the FRR which are applicable to Futu International Hong Kong:

	<u>Regulated Activities</u>	<u>Minimum Amount of Paid-up Share</u>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 4, Type 5 and Type 9 regulated activities	HK\$10,000,000

In addition, the FRR also requires a licensed corporation to maintain minimum liquid capital. The minimum liquid capital requirements under the FRR that are applicable Futu International Hong Kong are the higher of the amount of (a) and (b) below:

(a) the amount of:

	<u>Regulated Activities</u>	<u>Minimum Amount of Required Liquid Capital</u>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 4, Type 5 and Type 9 regulated activities	HK\$3,000,000

---

## [Table of Contents](#)

- (b) in the case of a corporation licensed for any regulated activities other than Type 3 regulated activities, its variable required liquid capital which means 5% of the aggregate of (i) its adjusted liabilities, (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, and (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to the requirement of payment of initial margin requirements.

### *Use of proceeds to fulfill requirements under the Financial Resources Rules*

Futu Securities International (Hong Kong) Limited currently does not need to rely on any of the IPO proceeds to fulfill the requirements under the Financial Resources Rules. Nevertheless, Futu Securities International (Hong Kong) Limited may use part of the IPO proceeds for its future business development, and its liquidity position under the Financial Resources rules will be strengthened as a result.

### ***Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong) (the “Client Securities Rules”)***

The replying limit stipulated under section 8A of the Client Securities Rules applies to an intermediary which is licensed for dealing in securities and/or securities margin financing and where the intermediary or an associated entity of such intermediary repurchases securities collateral of the intermediary. On each business day, the intermediary shall ascertain the aggregate market value of the repurchased securities collateral, which shall be calculated by reference to the respective closing prices of the collateral on that business day.

Pursuant to section 8A of the Client Securities Rules, if the aggregate market value of the repurchased securities collateral as calculated above exceeds 140% of the intermediary’s aggregate margin loans on the same business day (the “Relevant Day”), the intermediary shall by the close of business on the next business day following the Relevant Day (the “Specified Time”) withdraw, or causes to be withdrawn, from deposit an amount of repurchased securities collateral such that the aggregate market value of the repurchased securities collateral at the Specified Time, which is calculated by reference to the respective closing prices on the Relevant Day, does not exceed 140% of the intermediary’s aggregate margin loans as of the close of business on the Relevant Day.

### ***Exchange and Clearing Participantship***

As of the date of this prospectus, Futu Securities International (Hong Kong) Limited was a participant of the following:

<u>Exchange / Clearing House</u>	<u>Type of Participantship</u>
The Stock Exchange (SEHK)	Participant China Connect Exchange Participant
HKSCC	Direct Clearing Participant China Connect Clearing Participant

### *Trading Rights*

In addition to the licensing requirements under the SFO, the rules promulgated by the Stock Exchange and the Futures Exchange require any person who wishes to trade on or through their respective facilities to hold a trading right, or Trading Right. The Trading Right confers on its holder the eligibility to trade on or through the relevant exchange. However, the holding of a Trading Right does not, of itself, permit the holder to actually trade on or through the relevant exchange. In order to do this, it is also necessary for the person to be registered as a participant of the relevant exchange in accordance with its rules, including those requiring compliance with all relevant legal and regulatory requirements.

---

## Table of Contents

Stock Exchange Trading Rights and Futures Exchange Trading Rights are issued by the Stock Exchange and the Futures Exchange at a fee and in accordance with the procedures set out in their respective rules. Alternatively, Stock Exchange Trading Rights and Futures Exchange Trading Rights can be acquired from existing Trading Right holders subject to the rules of the respective exchanges.

### *Exchange Participantship*

The table below sets out a summary of the requirements for becoming an exchange participant of the relevant exchange:

	<b>Stock Exchange Participant / Stock Options Exchange Participant</b>	<b>Futures Exchange Participant</b>
Legal Status	Being a company limited by shares incorporated in Hong Kong	
SFC Registration	Being a licensed corporation qualified to carry out Type 1 regulated activity under the SFO	Being a licensed corporation qualified to carry out Type 2 regulated activity under the SFO
Trading Right	Holding a Stock Exchange Trading Right	Holding a Futures Exchange Trading Right
Financial Standing	Having good financial standing and integrity	
Financial Resources Requirement	Complying with the minimum capital requirement, liquid capital requirement and other financial resources requirements as specified by the FRR	

### *Clearing Participantship*

An entity must be an exchange participant of the relevant exchange before it can become a clearing participant of the following clearing houses, namely the HKSCC, HKCC and SEOCH.

#### *HKSCC*

HKSCC has, among others, two categories of participantship: (1) the Direct Clearing Participant; and (2) the General Clearing Participant. The requirements of Direct Clearing Participantship are as follows:

- to be an Exchange Participant of the Stock Exchange;
- to undertake to (i) sign a participant agreement with HKSCC; (ii) pay to HKSCC an admission fee of HK\$50,000 in respect of each Stock Exchange Trading Right held by it; and (iii) pay to HKSCC its contribution to the Guarantee Fund of HKSCC as determined by HKSCC from time to time subject to a minimum cash contribution of the higher of HK\$50,000 or HK\$50,000 in respect of each Stock Exchange Trading Right held by it;
- to open and maintain a single current account with one of the CCASS designated banks and execute authorizations to enable the designated bank to accept electronic instructions from HKSCC to credit or debit the account for CCASS money settlement, including making payment to HKSCC;
- to provide a form of insurance to HKSCC as security for liabilities arising from defective securities deposited by it into CCASS, if so required by HKSCC; and
- to have a minimum liquid capital of HK\$3,000,000.

#### *China Connect Exchange Participant*

China Connect is open to all Exchange Participants, but Exchange Participants who wish to participate must satisfy certain eligibility requirements published on the Stock Exchange website at <http://www.hkex.com.hk/mutualmarket>.

---

## [Table of Contents](#)

Only the following Exchange Participants shall be eligible to apply for registration and to remain registered as China Connect Exchange Participants: (1) Exchange Participants that are CCASS Clearing Participants, and (2) Exchange Participants that are not CCASS Clearing Participants but have entered into a valid, binding and effective CCASS Clearing Agreement with a CCASS GCP (capitalised terms of which are defined in the Rules of the Exchange).

The Stock Exchange may publish the China Connect Exchange Participant Registration Criteria (as defined in the Rules of the Stock Exchange) and a list of the China Connect Exchange Participants registered from time to time on the website of the Stock Exchange or by other means that it considers appropriate.

### *China Connect Clearing Participant*

Only China Connect Clearing Participants may use China Connect Clearing Services relating to the clearing and settlement of China Connect Securities Trades. The requirements for being accepted for registration and remaining registered as a China Connect Clearing Participant are as follows:

- to be a Direct Clearing Participant or a General Clearing Participant;
- to undertake to pay HKSCC such amount of Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral as may be specified by HKSCC in accordance with the Operational Procedures of HKSCC in relation to CCASS; and
- to meet all other relevant China Connect Clearing Participant Registration Criteria.

HKSCC may from time to time prescribe additional eligibility criteria for participants to be accepted for registration and to remain registered as China Connect Clearing Participants. HKSCC may publish the China Connect Clearing Participant Registration Criteria and a list of China Connect Clearing Participants on the website of the Stock Exchange or by other means that it considers appropriate.

### *Anti-Money Laundering and Counter-Terrorist Financing*

Licensed corporations are required to comply with the applicable anti-money laundering and counterterrorist financing laws and regulations in Hong Kong as well as the AMLCTF Guideline and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities published by the HK SFC.

The AMLCTF Guideline provides practical guidance to assist licensed corporations and their senior management in formulating and implementing their own policies, procedures and controls in order to meet applicable legal and regulatory requirements in Hong Kong. Under the AMLCTF Guideline, licensed corporations should, among other things:

- assess the risks of any new products and services before they are introduced and ensure that appropriate additional measures and controls are implemented to mitigate and manage the risks associated with money laundering and terrorist financing;
- consider the delivery and distribution channels (which may include sales through online, postal or telephone channels where a non-face-to-face account opening approach is used and business sold through intermediaries) and the extent to which they are vulnerable to abuse for money laundering and terrorist financing;
- identify the client and verify the client's identity by reference to any documents, information or data from reliable and independent sources, and take steps from time to time to ensure that the client information obtained is up-to-date and relevant;

---

## [Table of Contents](#)

- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complex, large or unusual, or patterns of transactions that have no apparent economic or lawful purpose and which may indicate money laundering and terrorist financing;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the information from various lists that have been made known to them, as well as conduct comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspicious financial or money laundering activities.

We set out below a brief summary of the principal legislation in Hong Kong that is concerned with anti-money laundering and counter-terrorist financing.

### *Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) (“AMLO”)*

Among other things, the AMLO imposes on certain institutions (which include licensed corporations as defined under the SFO) certain requirements relating to customer due diligence and record-keeping. The AMLO empowers the relevant regulatory authorities to supervise compliance with the requirements under the AMLO. In addition, a financial institution must take all reasonable measures to (1) ensure that proper safeguards exist to prevent contravention of specific provisions in the AMLO, and (2) mitigate money laundering and terrorist financing risks.

### *Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) (“DTROP”)*

Among other things, the DTROP contains provisions for the investigation of assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities by the competent authorities. It is an offense under the DTROP for a person to deal with any property knowing or having reasonable grounds to believe it to represent the proceeds from drug trafficking. The DTROP requires a person to report to an authorised officer if he/she knows or suspects that any property (in whole or in part directly or indirectly) represents the proceeds of drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offense under the DTROP.

### *Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) (“OSCO”)*

Among other things, the OSCO empowers officers of the Hong Kong Police Force and the Hong Kong Customs & Excise Department to investigate organised crime and triad activities, and confers jurisdiction on the Hong Kong courts to confiscate the proceeds of organised and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offenses under the OSCO. The OSCO extends the money laundering offense to cover the proceeds from all indictable offenses in addition to drug trafficking.

### *United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) (“UNATMO”)*

Among other things, the UNATMO stipulates that it is a criminal offense to: (1) provide or collect property (by any means, directly or indirectly) with the intention or knowledge that the property will be used to commit, in

---

## [Table of Contents](#)

whole or in part, one or more terrorist acts; or (2) make any property or financial (or related) services available, by any means, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate, or collect property or solicit financial (or related) services, by any means, directly or indirectly, for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate. The UNATMO also requires a person to disclose his knowledge or suspicion of terrorist property to an authorised officer, and failure to make such disclosure constitutes an offense under the UNATMO.

### ***Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (“PDPO”)***

The PDPO imposes a statutory duty on data users to comply with the requirements of the six data protection principles (the “Data Protection Principles”) contained in Schedule 1 to the PDPO. The PDPO provides that a data user shall not do an act, or engage in a practice, that contravenes a Data Protection Principle unless the act or practice, as the case may be, is required or permitted under the PDPO. The six Data Protection Principles are:

- Principle 1 — purpose and manner of collection of personal data;
- Principle 2 — accuracy and duration of retention of personal data;
- Principle 3 — use of personal data;
- Principle 4 — security of personal data;
- Principle 5 — information to be generally available; and
- Principle 6 — access to personal data.

Non-compliance with a Data Protection Principle may lead to a complaint to the Privacy Commissioner for Personal Data (the “Privacy Commissioner”). The Privacy Commissioner may serve an enforcement notice to direct the data user to remedy the contravention and/ or instigate prosecution actions. A data user who contravenes an enforcement notice commits an offense which may lead to a fine and imprisonment.

The PDPO also gives data subjects certain rights, *inter alia*:

- the right to be informed by a data user whether the data user holds personal data of which the individual is the data subject;
- if the data user holds such data, to be supplied with a copy of such data; and
- the right to request correction of any data they consider to be inaccurate.

The PDPO criminalises, including but not limited to, the misuse or inappropriate use of personal data in direct marketing activities, non-compliance with a data access request and the unauthorised disclosure of personal data obtained without the relevant data user’s consent. An individual who suffers damage, including injured feelings, by reason of a contravention of the PDPO in relation to his or her personal data may seek compensation from the data user concerned.

### ***The Money Lenders Ordinance***

Money lenders and money-lending transactions in Hong Kong are regulated by the Money Lenders Ordinance. In general, any person who carries on business as a money lender must apply for and maintain a money lenders license (valid for 12 months) granted by the licensing court under the Money Lenders Ordinance, unless any exemption under the Money Lenders Ordinance applies.

An application for or renewal of this license is subject to any objection by the Registrar of Money Lenders (the role is presently performed by the Registrar of Companies) and the Commissioner of Police. The

---

## [Table of Contents](#)

Commissioner of Police is responsible for enforcing the Money Lenders Ordinance, including carrying out examinations on applications for money lenders licenses, renewal of licenses and endorsements on licenses, and is responsible for investigations of complaints against money lenders.

The register of licensed money lenders is currently kept in the Companies Registry of Hong Kong and is available for inspection. The Money Lenders Ordinance provides for protection and relief against excessive interest rates and extortionate stipulations in respect of loans by, for example, making it an offense for a person to lend money at an effective interest rate exceeding 60% per annum or extortionate provisions. It also stipulates various mandatory documentary and procedural requirements that are required to be observed by a money lender in order to enforce in the courts of law a lending agreement or security being the subject of the Money Lenders Ordinance.

Recently, the Companies Registry of Hong Kong has introduced more stringent licensing conditions on all money lenders licenses, with an aim to facilitate effective enforcement of the statutory ban on separate fee charging by money lenders and their connected parties, ensure better protection of privacy of intending borrowers, enhance transparency and disclosure and promote the importance of prudent borrowing. For example, one of the additional licensing conditions is that all money lenders should include a warning statement in their advertisements in relation to their money lending business, namely “Warning: You have to repay your loans. Don’t pay any intermediaries.”

The additional licensing conditions came into effect on December 1, 2016. The Companies Registry of Hong Kong also published a new “Guidelines on Additional Licensing Conditions of Money Lenders License” to provide guidance for money lenders licenses on the requirements of the additional licensing conditions.

### **Overview of the Laws and Regulations Relating to Our Business and Operations in China**

This section sets forth a summary of the most significant laws, regulations and rules that affect our business activities in the PRC or the rights of our shareholders to receive dividends and other distributions from us.

#### ***Regulations on Securities Business***

##### *Regulations on the Engagement of Securities Business within the Territory of the PRC by Foreign-Invested Securities Companies*

On December 29, 1998, the Standing Committee of the National People’s Congress, or the SCNPC, promulgated the Securities Law of the PRC, or the Securities Law, and most recently amended on August 31, 2014, governs all the issuance or trading of shares, corporate bonds or any other securities approved by the State Council within China. No entities or individuals shall engage in securities business without the approval by the securities regulatory authority of the State Council.

The State Council promulgated the Regulations on the Supervision and Administration of Securities Companies on April 23, 2008 and most recently amended on July 29, 2014, which clarifies that the operation of securities businesses or establishment of representative agencies in China by foreign-invested securities companies shall be subject to the approval of the securities regulatory authority of the State Council.

We redirect our users and clients to open accounts and make transactions outside China, which may be considered as “engaging in securities business within the territory of the People’s Republic of China” and an approval from State Council securities regulatory authority may be required. See “Risk Factors—Risks Related to Our Business and Industry—We do not hold any license or permit for providing securities brokerage business in China. Although we do not believe we engage in securities brokerage business in China, there remain uncertainties to the interpretation and implementation of relevant PRC laws and regulations.”

---

## [Table of Contents](#)

### *Regulations on the Securities Investment Consulting Service*

On December 25, 1997, the CSRC issued the Interim Measures for the Administration of Securities or Futures Investment Consulting, or the Interim Measures for Securities Investment Consulting, which became effective on April 1, 1998. According to the Interim Measures for Securities Investment Consulting, the securities investment consulting service means any analysis, prediction, recommendations or other directly or indirectly charged consulting services provided by securities investment consulting institutions and their investment consultants to securities investors or clients, including: (i) to accept any entrustment from any investor or client to provide securities or futures investment consulting services; (ii) to hold any consulting seminar, lecture or analysis related to securities or futures investment; (iii) to write any article, commentary or report on securities or futures investment consultancy in any newspaper or periodical, or to provide securities or futures investment consulting services through media such as radio or television; (iv) to provide securities or futures investment consulting services through telecommunications facilities such as telephone, fax, computer network; and (v) other forms recognized by the CSRC. In addition, all institutions shall obtain the operation permits issued by the CSRC and all person must obtain professional qualification as a securities investment consultant and joining a qualified securities investment consulting institution before engaged in securities investment consulting service.

On October 11, 2001, the CSRS promulgated the Notice with Respect to Certain Issues on Regulating the Securities Investment Consulting Services Provided for the Public, which became effective on the same day, stipulates that media which disseminate securities-related information shall not publish or broadcast any analysis, prediction or recommendation in respect of the trends of securities markets and securities products, as well as the feasibility of the securities investment made by any institution which does not obtain the operation permits for securities investment consulting services or any individual who does not obtain the professional qualification for securities investment advisors from CSRC. Any media in violation of the foregoing stipulation will be subject to reprimand or exposure by the CSRC, or be transferred to competent department or judicial organ for further handling.

On December 5, 2012, the CSRC published the Interim Provisions on Strengthening the Regulation over Securities Investment Consulting Services by Using “Stock Recommendation Software” Products, or the Interim Provisions, and came into effect on January 1, 2013. Pursuant to the Interim Provisions, “stock recommendation software” are defined as any software products, software tools or terminal devices with one or more of the following securities investment consulting services: (i) Providing investment analysis on specific securities investment products or predicting the price trends of specific securities investment products; (ii) Recommending the selection of specific securities investments products; (iii) Recommending the timing for trading specific securities investments products; and/or (iv) Providing other securities investment analysis, prediction or recommendations. Therefore, selling or providing “stock recommendation software” products to investors and directly or indirectly obtain economic benefits therefrom shall be considered as engaging in securities investment consulting business and the operation permits for securities investment consulting services from CSRC shall be obtained.

We cannot assure you that any information or content provided on our website, desktop devices and mobile applications in China will not be considered as engaging in investment consulting business for providing the public with securities analysis, forecast or recommendations through the forum or broadcasting of pre-recorded videos. See “Risk Factors—Risks Related to Our Business and Industry—We have not obtained certain relevant licenses from PRC authorities in connection with some of the information and services available on our platform.”

### *Regulations on Offshore Stocks Investment*

On January 29, 1996, the State Council promulgated the Foreign Exchange Administration Regulations of the PRC, which was last amended and became effective on August 5, 2008. Pursuant to the Foreign Exchange

---

## [Table of Contents](#)

Administration Regulations of the PRC, Chinese nationals shall register with the foreign exchange administration department of the State Council for any foreign direct investment or engagement in any issuance or transaction of offshore valuable securities or derivative products. On December 25, 2006, the People's Bank of China promulgated the Administrative Measures for Personal Foreign Exchange, which further clarifies that any offshore equity, fixed-income or other approved financial investments by Chinese nationals, shall be conducted through a qualified domestic financial institution. On January 5, 2007, the SAFE published the Implementation of the Administrative Measures for Personal Foreign Exchange and last amended on May 29, 2016, under which Chinese nationals are limited to a foreign exchange quota of US\$50,000 per year for approved uses only.

In addition, pursuant to the SAFE Officials Interview on Improving the Management of Declarations of Individual Foreign Exchange Information on December 31, 2016, Chinese nationals can only engage in offshore investments under capital items only provided methods such as Qualified Domestic Institutional Investors, otherwise Chinese nationals can only purchase foreign currency for the purpose of external payments within the scope of current items, including private travel, overseas study, business trips, family visits, overseas medical treatment, trade in goods, purchase of non-investment insurance and consulting services. Furthermore, in 2016, CSRC published a response letter to investors on its website to remind domestic investors that any offshore investments conducted by ways which are not explicitly specified under applicable PRC Laws, may not be adequately protected by the PRC Laws.

We do not convert Renminbi into Hong Kong dollars or U.S. dollars for our clients, and require those who would like to trade securities listed on the Hong Kong Stock Exchange or any major stock exchange in the United States through our platform to inject funding into their respective trading accounts in Hong Kong in either Hong Kong dollars or U.S. dollars. See “Risk Factors—Risks Related to Our Business and Industry—PRC governmental control of currency conversion and offshore investment could have a direct impact on the trading volume achieved on our platform. If the government further tightens restrictions on converting Renminbi to foreign currencies, including Hong Kong dollars and U.S. dollars, and/or deems our practice as in violation of PRC laws and regulations, our business will be materially and adversely affected.”

### *Regulations on brokerage business involving securities qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect*

On September 30, 2016, the CSRC promulgated the Several Provisions on the Inter-connected Mechanism for Trading on Stock Markets in the Mainland and Hong Kong, which regulates that the Shanghai Stock Exchange and the Shenzhen Stock Exchange separately shall set up technical connections with the Stock Exchange of Hong Kong Limited to allow investors in the Mainland and Hong Kong to, through their local securities companies or brokers, trade qualified shares listed on the stock exchange of the other side, including the Shanghai-Hong Kong Stock Connect Program and the Shenzhen-Hong Kong Stock Connect Program.

The Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect Program, promulgated on September 26, 2014, by the Shanghai Stock Exchange, and last amended on September 7, 2018, and the Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect Program, promulgated on September 30, 2016, by the Shenzhen Stock Exchange, and last amended on September 7, 2018, clarify that the securities qualified under the Shanghai-Hong Kong Stock Connect Program and the Shenzhen-Hong Kong Stock Connect Program shall be quoted and traded in Renminbi.

Our clients could trade securities qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect through our platform.

### ***Regulations on Internet Service***

#### *Regulation on Foreign Investment*

The Guidance Catalog of Industries for Foreign Investment, or the Foreign Investment Catalog, was promulgated by the National Development and Reform Commission and the Ministry of Commerce in 1995, and most recently amended on June 28, 2017. The Foreign Investment Catalog lays out the basic framework for

---

## [Table of Contents](#)

foreign investment in China, classifying businesses into three categories with regard to foreign investment: “encourage,” “restricted” and “prohibited.” Industries not listed in the catalog are generally deemed as “permitted” unless specifically restricted by other PRC laws.

On December 25, 2018, the Ministry of Commerce and the National Development and Reform Commission promulgated the Market Access Negative List (2018 Version), or the Negative List, which replaced and abolished the Guidance Catalog of Industries for Foreign Investment (2017 Revision) regulating the access of foreign investors to China. Pursuant to the Negative List, foreign investors cannot conduct investment activities that are classified as “prohibited”, can conduct investment activities that are listed in the Negative List classified as “permitted” with certain approvals from competent authorities and can have equal access to industries, fields and activities that are not listed in the Negative List.

We are a Cayman Island company and our businesses in China are mainly internet information services, internet Audio-Visual Programs services and internet news information service, which are restricted or prohibited for foreign investors by the Foreign Investment Catalog and the Negative List. We conduct a limited part of our business operations that is restricted or prohibited for foreign investment through our variable interest entity, or VIE.

### *Regulations on Telecommunication Services*

The Telecommunications Regulations of the PRC (2016 Revision), or the Telecom Regulations, promulgated on September 25, 2000 by the State Council and most recently amended on February 6, 2016, which distinguish “basic telecommunications services” from “value-added telecommunications services. The basic telecommunications services provider who provides public network infrastructure, public data transmission and basic voice communications services shall obtain a Basic Telecommunications Service Operating License, and the commercial telecommunications service provider shall obtain an operating license from the Ministry of Industry and Information Technology, or the MIIT, or its counterparts at provincial level prior to its commencement of operations.

The Administrative Measures on Internet Information Services (2011 Revision), promulgated on September 25, 2000 and amended on January 8, 2011 by the State Council, further defines that commercial internet information services providers, which mean providers of information or services to internet users with charge, shall obtain an Internet Content Provider License or the ICP License, from competent government authorities before providing any commercial internet content services within the PRC. To comply with the relevant laws and regulations, Shenzhen Futu holds a valid ICP License.

### *Regulation on Internet Audio-Visual Program Services*

The Administrative Provisions on the Internet Audio-Video Program Service, or the Audio-Video Program Provisions, promulgated on December 20, 2007, and amended on August 28, 2015, by the Ministry of Information Industry (the predecessor of the MIIT) and the State Administration of Press, Publication, Radio, Film and Television (the predecessor of the National Radio and Television Administration), or the SAPPRFT, stipulates that providers of internet audio-visual program services should obtain an Audio and Video Service Permission, or AVSP. The Categories of the Internet Audio-Video Program Services, or the Audio-Video Program Categories, promulgated on April 1, 2010, and amended on March 10, 2017, by SAPPRFT, classifies internet audio-video programs into four categories. Aggregating and broadcasting service of arts, entertainment, technology, finance and economics, sports, education and other specialized audio-video programs falls into Category II of above four categories. In general, providers of internet audio-visual program services must be either state-owned or state-controlled entities, and their businesses must satisfy the overall planning and guidance catalog for internet audio-visual program service determined by SAPPRFT. In addition, foreign-invested enterprises are not allowed to engage in the above-mentioned services. Failure to obtain AVSP, we may be subject to fines and legal sanctions, and our business, financial conditions and results of operations may be

---

## [Table of Contents](#)

affected. See “Risk Factors—Risks Related to Our Business and Industry—We have not obtained certain relevant licenses from PRC authorities in connection with some of the information and services available on our platform.”

### *Regulation on Internet Culture Activities*

The Interim Administrative Provisions on Internet Culture, or the Internet Culture Provisions, promulgated on February 17, 2011, and amended on December 15, 2017, by the Ministry of Culture (the predecessor of the Ministry of Culture and Tourism), stipulates that providers of internet cultural products or services, such as internet shows or programs and internet games must file an application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit. If any entity engages in commercial internet culture activities without approval, the cultural administration authorities or other relevant government may order such entity to cease to operate internet culture activities as well as levying penalties including administrative warning and fines up to RMB30,000. In addition, foreign-invested enterprises are not allowed to engage in the above-mentioned services except online music. As of the date of the prospectus, Shenzhen Futu holds a valid Online Culture Operating Permit.

### *Regulation on Production and Operation of Radio and Television Programs*

The Administration of Production and Operation of Radio and Television Programs, promulgated on July 19, 2004, and amended on August 28, 2015, by the SAPPRFT, provides that entities engaging in the production of radio and television programs must obtain a License for Production and Operation of Radio and TV Programs from the SAPPRFT or its counterparts at the provincial level. Entities with the License for Production and Operation of Radio and TV Programs must conduct their business operations strictly in compliance with the approved scope of production and operations. In addition, foreign-invested enterprises are not allowed to produce or operate the radio and TV programs.

As of the date of this prospectus, to comply with the relevant laws and regulations, Shenzhen Futu holds a valid License for Production and Operation of Radio and TV Programs as required by the Radio and TV Programs Regulations.

### *Regulation on Internet News Dissemination*

The Provisions for the Administration of Internet News Information Services was promulgated by the Cyberspace Administration of China, or CAOC, on May 2, 2017, and became effective on June 1, 2017 stipulates that the providers of internet news information (includes reports and comments relating to social and public affairs such as politics, economy, military affairs and foreign affairs, as well as relevant reports and comments on social emergencies) services to the public in a variety of ways, including editing and publishing internet news information, reposting internet news information and offering platforms for users to disseminate internet news information, shall obtain the internet news license from CAOC. Various qualifications and requirements which service providers shall meet have been provided in this regulation. For those who carrying out Internet-based news information service activities without being licensed or beyond the licensed scope, the competent cyberspace administration shall order them to cease the relevant service activities and impose a fine up to RMB30,000. In addition, such regulation also stipulates that no organization may establish Internet-based news information service agencies in the form of Sino-foreign joint ventures, Sino-foreign cooperative ventures or wholly foreign-owned enterprises.

The Implementation Rules for the Administration of the Licensing for Internet-based News Information Services, promulgated on May 22, 2017, by CAOC, and became effective on June 1, 2017, further clarifies that only a news agency (including the controlling shareholder of a news agency) or an entity under news publicity authorities may apply for a license for editing and publishing services in respect of internet-based news information. Foreign-invested enterprises are not allowed to establish any internet-based news information service entities.

---

## [Table of Contents](#)

Currently, our website and mobile application contain news and financial information, thus the relevant PRC government authorities may require us to obtain an internet news license which we do not hold at present. See “Risk Factors—Risks Related to Our Business and Industry—We have not obtained certain relevant licenses from PRC authorities in connection with some of the information and services available on our platform.”

### ***Regulations on Cybersecurity and Privacy***

#### *Regulations on Cybersecurity*

On December 13, 2005, the Ministry of Public Security, or the MPS, promulgated the Provisions on Technological Measures for the Internet Security Protection, or the Internet Protection Measures, which took effect on March 1, 2006. Pursuant to the Internet Protection Measures, internet service providers and entity users of interconnection shall not public or divulge user registration information without the consent of the users or otherwise specified in the relevant laws and regulations. In addition, the Internet Protection Measures requires all internet service providers and entity users of interconnection to take proper measures to control computer viruses, back up data, and keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least sixty days. On June 22, 2007, the Administrative Measures for Multi-level Protection of Information Security were jointly promulgated by four PRC regulatory agencies, including the MPS, under which companies operating and using information systems shall protect the information systems and any system equal to or above level II as determined in accordance with these measures, a record-filing with the competent authority is required.

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law of the PRC, or the Cybersecurity Law, which became effective on June 1, 2017. The Cybersecurity Law regulates all the construction, operation, maintenance, use of networks and the supervision and administration of network security within the territory of China, and pursuant to which, network operators shall follow their cybersecurity obligations pursuant to the requirements of the classified protection system for cybersecurity, including: (a) formulating internal security management systems and operating instructions, determining the persons responsible for cybersecurity, and implementing the responsibility for cybersecurity protection; (b) taking technological measures to prevent computer viruses, network attacks, network intrusions and other actions endangering cybersecurity; (c) taking technological measures to monitor and record the network operation status and cybersecurity incidents; (d) taking measures such as data classification, and back-up and encryption of important data; and (e) other obligations stipulated by laws and administrative regulations. In addition, the Cybersecurity Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

On May 1, 2018, the Personal Information Security Specification, or China Specification, was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and came into force on May 1, 2018, which set a national standard for personal information security. Although the China Specification is not a mandatory regulation, it is likely that the China Specification will be relied on by Chinese government agencies as a standard to determine whether businesses have abided by China’s data protection rules.

#### *Regulations on Privacy Protection*

On December 29, 2011, the MIIT issued The Several Provisions on Regulating the Market Order of Internet Information Services, which became effective on March 15, 2012 and provides that an internet information service provider may not collect any user’s personal information or provide any such information to third parties without such user’s consent. Pursuant to The Several Provisions on Regulating the Market Order of Internet Information Services, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users’ personal information

---

## [Table of Contents](#)

and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users' personal information, and in case of any leak or possible leak of a user's personal information, internet information service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

In addition, on December 28, 2012, the Decision on Strengthening Network Information Protection promulgated by the SCNPC which requires internet service providers to establish and publish policies regarding the collection and use of electronic personal information and to take necessary measures to ensure the security of the information and to prevent leakage, damage or loss. On July 16, 2013, MIIT promulgated the Regulations on Protection of the Personal Information of Telecommunications and Internet Users, or the Regulations on Personal Information Protection, which enhance the legal protection over user information security and privacy on the Internet. The Regulations on Personal Information Protection require that telecommunications business operators and internet information service providers shall, in the course of providing services, collect and use the personal information of users in a lawful and proper manner by following the principle that information collection or use is necessary and responsible for the security of the personal information of users collected and used in the course of providing services.

Any violation of these laws and regulations may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

Pursuant to the Ninth Amendment to the Criminal Law, issued by the SCNPC in August 2015, which became effective in November, 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration and refuses to rectify upon orders is subject to criminal penalty for causing (i) any dissemination of illegal information in large scale; (ii) any significant damages due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other serious harm, and any individual or entity information may be subject to criminal penalty for (i) illegally selling or providing personal information to third parties, or (ii) stealing or illegally obtaining any personal information.

For the protection of personal information, network operators like us may not disclose or tamper with personal information that we have collected. Moreover, we may not provide personal information to third parties without prior consent. See "Risk Factors—Risks Related to Our Business and Industry—If we fail to protect the confidential information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-ins or other reasons, we may be subject to liabilities imposed by relevant laws and regulations, and our reputation and business may be materially and adversely affected."

### ***Regulations on Intellectual Property***

#### *Software*

The State Council and the National Copyright Administration have promulgated various rules and regulations relating to protection of software in China. According to these rules and regulations, software owners, licensees and transferees may register their rights in software with the Copyright Protection Center or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may be entitled to better protections.

#### *Trademark*

According to the Trademark Law of the PRC, adopted in 1982 and subsequently amended in 1993, 2001 and 2013, as well as the Implementation Regulation of the Trademark Law of the PRC adopted by the State Council in 2002 and subsequently amended in 2014, the Trademark Law of the PRC has adopted a "first-to-file" principle

---

## [Table of Contents](#)

with respect to trademark registrations, and the registered trademarks are granted a term of ten years which may be renewed for consecutive ten-year periods upon request by the trademark owner. Upon expiry of the period of validity, the registrant shall go through the formalities for renewal within twelve months prior to the date of expiry as required if the registrant needs to continue to use the trademark. Where the registrant fails to do so, a grace period of six months may be granted. The period of validity for each renewal of registration is ten years, from the day immediately after the expiry of the preceding period of validity for the trademark. In the absence of a renewal upon expiration, the registered trademark shall be cancelled.

### *Copyright*

On September 7, 1990, the SCNPC promulgated the PRC Copyright Law, which was amended in 2001 and 2010, and the Implementation of Copyright Law of PRC, was promulgated on January 30, 2013 and became effective on March 1, 2013. The PRC Copyright Law and its implementation regulations are the principal laws and regulations governing related matters of copyright. Pursuant to the amended PRC Copyright Law, products disseminated over the internet and software products, among the subjects, are entitled to copyright protections. Registration of copyright is voluntary, and it is administrated by the China Copyright Protection Center.

On May 18, 2006, the State Council promulgated the Regulations on the Protection of the Right to Network Dissemination of Information, as amended in 1, 2013. Under these regulations, an owner of the network dissemination rights with respect to written works or audio or video recordings who believes that information storage, search or link services provided by an internet service provider infringe his or her rights may require that the internet service provider delete, or disconnect the links to, such works or recordings.

### *Domain name*

In China, the administration of PRC internet domain names is mainly regulated by the MIIT, under supervision of the China Internet Network Information Center, or CNNIC. On August 24, 2017, the MIIT promulgated the Administrative Measures for Internet Domain Names, or the Domain Name Measures, and became effective on November 1, 2017. The principle of “first apply, first register” applies to domain name registration service in accordance with the Domain Name Measures. In the event that there is any change to the contact information of a domain name holder, the holder shall go through formalities for changes to the registered information of its domain name with the domain name registrar concerned within 30 days after such change arises.

According to the Circular of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet based Information Services issued by the MIIT on November 27, 2017, and became effective on January 1, 2018, an internet access service provider shall, pursuant to requirements stated in the Anti-Terrorism Law of the PRC and the Cybersecurity Law of the PRC, verify the identities of internet-based information service providers, and the internet access service providers shall not provide access services for those who fail to provide their real identity information.

### *Patent*

The National People’s Congress promulgated the PRC Patent Law in 1984 and amended it in 1992, 2000 and 2008, respectively. Any invention, utility model or design must meet three conditions to be patentable: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design, starting from the application date. Except under certain specific circumstances provided by law, any third party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

***Regulations on Foreign Exchange***

*Regulations on Foreign currency exchange*

The core regulations governing foreign currency exchange in China is the PRC Foreign Exchange Administration Regulation, which was promulgated and became effective in August 2008. Under the PRC Foreign Exchange Administration Regulations, Renminbi is freely convertible for payments of current account items, such as distribution of dividends, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE. On the contrast, approval from or registration with appropriate government authorities is required where Renminbi is to convert into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

Pursuant to the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, or the SAFE Circular 59 promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign – Invested Enterprises. According to SAFE Circular 19, foreign-invested enterprises are allowed, within the scope of business, to settle their foreign exchange capital in their capital accounts, for which the relevant foreign exchange bureau has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the accounts), on a discretionary basis according to the actual needs of their business operation. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, which became effective in June 2016. SAFE Circular 19 and SAFE Circular 16 prohibit foreign-invested enterprises from using Renminbi fund converted from their foreign exchange capitals for expenditure beyond their business scopes, providing entrusted loans or repaying loans between non-financial enterprises.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting the profits. Further, according to SAFE Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

*Regulations on Foreign Debt*

On April 28, 2013, SAFE promulgated the Administrative Measures for Foreign Debt Registration and further updated it on April 26, 2016, and June 9, 2016, respectively. Loans made by foreign investors as shareholders in foreign invested enterprises established in China are considered to be foreign debts and shall be regulated by the Administrative Measures for Foreign Debt Registration. The definition of the registration of

---

## [Table of Contents](#)

foreign debt under the Foreign Debt Measures include debtors' registration or submission of information on execution of foreign debt contract, withdrawal of funds, repayment of foreign debt and foreign exchange settlement and sale to the local foreign exchange bureau in accordance with the stipulated method upon borrowing of foreign debt pursuant to the applicable rules. Different methods for registration of foreign debt shall be implemented for different types of debtors. In addition, the Foreign Debt Measures requires, in the event of change of foreign debt loan contract, the debtor shall complete registration change formalities for execution of foreign debt contract with the foreign exchange bureau pursuant to the applicable rules. Where the outstanding balance of foreign debt is zero and the debtor will not make another withdrawal of funds, the debtor shall complete foreign debt deregistration formalities with the foreign exchange bureau pursuant to the applicable rules.

### *Regulations on Dividend distribution*

Wholly Foreign-Owned Enterprise Law of the People's Republic of China was promulgated by SCNPC on September 3, 2016 and became effective on October 1, 2016. Detailed Implementing Rules for the "Wholly Foreign-Owned Enterprise Law of the People's Republic of China" was promulgated by State Council on February 19, 2014.

Pursuant to these regulations, a wholly foreign-owned enterprise in China, or a WFOE, may pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a WFOE is required to allocate at least 10% of its accumulated profits each year, if any, to statutory reserve funds unless its reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. The proportional ratio for withdrawal of rewards and welfare funds for employees shall be determined at the discretion of the WFOE. Profits of a WFOE shall not be distributed before the losses thereof before the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

### *Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents*

Pursuant to the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, which was issued and became effective on July 4, 2014, PRC residents, including PRC institutions and individuals, are required to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interest in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, including but not limited to increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event.

In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making distributions of profit to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. And, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion, including (i) of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at our PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions.

---

## [Table of Contents](#)

In February 2015, SAFE promulgated the Circular of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which became effective on June 1, 2015. The SAFE Circular 13 cancels the administrative approval requirements of foreign exchange registration of foreign direct investment and overseas direct investment, and simplifies the procedure of foreign exchange-related registration, and foreign exchange registrations of foreign direct investment and overseas direct investment will be handled by the banks designated by the foreign exchange authority instead of SAFE and its branches.

As of the date of this prospectus, Mr. Leaf Hua Li has completed the SAFE registration pursuant to SAFE Circular 37 and is planning to update the registration with respect to the capital of the offshore company. We have notified substantial beneficial owners of ordinary shares who we know are PRC residents of their filing obligation. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. See “Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits.”

### *Regulations on Employee Share Incentive Plans of Overseas Publicly-Listed Company*

In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participation in Share Incentive Plan of Companies Listed Overseas, or the 2012 SAFE Notice. Under such notice and other relevant rules and regulations, PRC residents, including PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, that participate in any share incentive plan of any overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a share incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of the participants.

We and our executive officers and other employees who are PRC residents that have been granted share incentive awards will be subject to these regulations upon the completion of this offering. Failure by these individuals to complete their SAFE registrations may subject such individuals and us to fines and other legal sanctions.

In addition, the State Administration of Taxation, or the SAT, has issued certain circulars concerning employee share incentive awards. Under these circulars, our employees working in China who exercise share incentive awards will be subject to PRC individual income tax. Our PRC subsidiary has the obligation to make filings related to employee share incentive awards with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share incentive awards. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.

### *Regulations on M&A*

Six PRC regulatory agencies, including the CSRC, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective in September 2006 and was amended in June 2009. The M&A Rules, among other things, require offshore special purpose vehicles, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, must obtain approval from the CSRC prior to publicly listing such special purpose vehicle’s securities on an overseas stock exchange.

---

## [Table of Contents](#)

While the application of the M&A Rules remains unclear, we believe, based on the advice of our PRC counsel, CM Law Firm, that CSRC approval is not required in the context of this offering because: (a) we established our PRC subsidiary, Shensi Network Technology (Beijing) Co., Ltd., by means of direct investment rather than by merger with or acquisition of PRC domestic companies as defined in the M&A Rules, and (b) no explicit provision in the M&A Rules that classifies the respective contractual arrangements between Shensi Network Technology (Beijing) Co., Ltd., Shenzhen Futu Network Technology Co., Ltd. and its shareholders as a type of acquisition under the M&A Rules. However, as there has been no official interpretation or clarification of the M&A Rules and there remains uncertainty as to the implementation of such regulation.

### ***Regulations on Tax***

#### *Regulations on Enterprise Income Tax*

On March 16, 2007, the National People's Congress promulgated the Enterprise Income Tax Law of the PRC, which was most recently amended on February 24, 2017.

On December 6, 2007, the State Council enacted the Regulations for the Implementation of the Enterprise Income Tax Law, or collectively with the Enterprise Income Tax Law of the PRC, the EIT Laws. Under the EIT Laws, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Laws and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

#### *Regulations on Value-added Tax*

The Provisional Regulations of on Value-added Tax of the PRC were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which most recently amended on November 19, 2017. The Detailed Rules for the Implementation of Provisional Regulations of on Value-added Tax of the PRC were promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011. Based on the Provisional Regulations of on Value-added Tax of the PRC and the Detailed Rules for the Implementation of Provisional Regulations of on Value-added Tax of the PRC, the State Council promulgated the Order on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of on Value-added Tax of the PRC, pursuant to which all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of Value-added Tax. The Value-added Tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the Value-added Tax rate applicable to the small-scale taxpayers is 3%.

On April 4, 2018, the Ministry of Finance and the SAT issued the Circular on Adjustment of Value-added Tax Rates. According to which relevant Value-added Tax rates have been reduced from May 1, 2018, such as the deduction rates of 17% and 11% applicable to the taxpayers who have Value-Added taxable sales activities or imported goods have been adjusted to 16% and 10%, respectively.

As of the date of this prospectus, our PRC subsidiaries and consolidated affiliated entities are generally subject to VAT rates of 6%.

---

## [Table of Contents](#)

### *Regulations on Dividend Withholding Tax*

The EIT Laws provide that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the SAT Circular 81, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretions, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT and effective on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors apply, including without limitation: (i) whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, (ii) whether the business operated by the applicant constitutes the actual business activities, and (iii) whether the counterparty country or region to the tax treaties levies any tax or grant tax exemption on relevant incomes or levies tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

### *Regulations on Tax regarding Indirect Transfer*

On February 3, 2015, the SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Circular 7. Pursuant to Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, considerations include, inter alia, (i) whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; (ii) whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income is mainly derived from China; and (iii) whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature evidenced by their actual function and risk exposure. According to the Circular 7, where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. The Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax, or SAT Circular 37, which further elaborates the relevant implemental rules regarding the calculation, reporting and payment obligations of the withholding tax by the non-resident enterprises. Nonetheless, there remain uncertainties as to the interpretation and

---

## [Table of Contents](#)

application of the SAT Circular 7. The SAT Circular 7 may be determined by the tax authorities to be applicable to our offshore transactions or sale of our shares or those of our offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

### ***Regulations on Employment and Social Welfare***

#### *Regulations on Employment*

The principle regulations that govern employment and labor matters in PRC include: (i) Labor Law of the PRC, which was promulgated by the SCNPC on July 5, 1994, and became effective on January 1, 1995 and amended on August 27, 2009; (ii) the Implementing Regulations of the Labor Contract Law of the PRC which was promulgated by the State Council on September 18, 2008; and (iii) the Labor Contract Law of the PRC which was promulgated by the SCNPC on December 28, 2012 and became effective on July 1, 2013.

According to the regulations above, labor relationships between employers and employees must be executed in written form, and wages shall not be lower than local standards on minimum wages and shall be paid to employees timely. In addition, all employers are required to establish a system for labor safety and sanitation, strictly comply with state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

#### *Regulations on Social Welfare*

Employers in China are required by PRC laws and regulations to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds. According to the Social Insurance Law of the PRC promulgated by the National People's Congress of the PRC on October 28, 2010, and became effective on July 1, 2011, together with other relevant laws and regulations, Any employer shall register with the local social insurance agency within thirty days after its establishment and shall register for the employee with the local social insurance agency within thirty days after the date of hiring. An employer shall declare and make social insurance contributions in full and on time. The occupational injury insurance and maternity insurance shall be only paid by employers while the contributions of basic pension insurance, medical insurance and unemployment insurance shall be paid by both employers and employees. Any employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline. If the employer still fails to rectify the noncompliance within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue.

According to the Regulations on Administration of Housing Fund promulgated by the State Council on April 3, 1999, and amended on March 24, 2002, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, a petition may be made to a local court for enforcement. In addition, the PRC Individual Income Tax Law requires companies operating in China to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment. We have not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations.

## MANAGEMENT

### Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this prospectus.

Directors and Executive Officers	Age	Position/Title
Leaf Hua Li	41	Founder, Chairman of the Board of Directors and Chief Executive Officer
Ppchen Weihua Chen	39	Chief Technology Officer
Arthur Yu Chen	42	Chief Financial Officer
Nineway Jie Zhang	44	Director
Shan Lu	43	Director
Vic Haixiang Li†	46	Independent Director
Brenda Pui Man Tam†	48	Independent Director
Robin Li Xu	35	Vice President
Ching-Yee Joey Poon	32	Head of Compliance

† Each of Mr. Vic Haixiang Li and Ms. Brenda Pui Man Tam has accepted appointment to be a director of our company, effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

*Mr. Leaf Hua Li* is our founder and has served as the chairman of our board of directors and our chief executive officer since our inception. Mr. Li has rich experience and expertise in the technology and internet sectors in China. Before founding our company, Mr. Li had served in several senior management roles at Tencent, including the head of Tencent's multi-media business and its innovation center. Mr. Li joined Tencent in 2000 and was the 18th founding employee of Tencent. He was an early and key research and development participant of Tencent QQ. Mr. Li was also the founder of Tencent Video and led the product design and development of Tencent Video. Mr. Li invented 23 international and domestic patents while working at Tencent. In 2008, Mr. Li was presented the "Innovative Talent Award" by the municipal government of Shenzhen, Guangdong. Mr. Li received his bachelor's degree in computer science and technology from Hunan University in 2000.

*Mr. Ppchen Weihua Chen* has served as our chief technology officer since July 2015. Prior to joining our company, Mr. Chen was a senior technology expert at Tencent, where he served as the head of Tencent QQ's back-end services from 2003 to 2013 and was in charge of the security, maintenance and big data areas of Tencent's Weixin from 2013 to 2015. Mr. Chen invented 34 international and domestic patents while working at Tencent. Mr. Chen received his bachelor's degree in science from Shenyang University of Technology in 2001.

*Mr. Arthur Yu Chen* has served as our chief financial officer since September 2017. Prior to joining our company, Mr. Chen served as a director at Citigroup Global Markets Asia Limited from 2009 to 2016 in its equity business. Mr. Chen also served as a vice president at China International Capital Corporation from 2005 to 2009. Mr. Chen received his bachelor's degree in economics from Shanghai University of Finance & Economics in 1998 and his master's degree in business administration from China Europe International Business School in 2005.

*Mr. Nineway Jie Zhang* has served as our director since October 2014. Mr. Zhang currently serves as the head of our financial information sector. Mr. Zhang has been working in internet securities trading business since 1997. Prior to joining our company, from 2002 to 2013, Mr. Zhang served as the head of the online trading center of the headquarters of Shenzhen of China Galaxy Securities Co., Ltd. (HKEx: 6881) in Beijing in charge of business development and the head of the online retail trading business of its Shenzhen branch. Mr. Zhang also served as the manager of its online transaction business at Essence Securities (previously known as Guangdong Securities) from 2000 to 2002 and served in various roles at several internet-based companies prior to that.

---

## [Table of Contents](#)

Mr. Zhang received an associate's degree in marketing from Nanjing University of Science and Technology in 1994, a master's degree in business administration from South China University of Technology in 2009 and an executive master's degree in business administration from Cheung Kong Graduate School of Business in 2013.

*Mr. Shan Lu* has served as our director since October 2014. Mr. Lu currently serves as the senior executive vice president of Tencent and the president of Technology and Engineering Group. Prior to joining Tencent in 2000, Mr. Lu served as a research and development engineer for Shenzhen Liming Network Systems from 1998 to 2000. Mr. Lu also serves on the board of China United Network Communications Group Co., Ltd. (SHA: 600050). Mr. Lu received his bachelor's degree in computer science from the University of Science and Technology of China in 1998.

*Mr. Vic Haixiang Li* will serve as our independent director starting from the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Mr. Li is the founder and managing partner of Virtus Inspire, and is also a co-founder of Tencent. Mr. Li left Tencent in 2012. He focuses on investments in technology, media and telecommunications as well as medical technology companies in China, the United States, Europe and Israel. Before founding Virtus Inspire, Mr. Li was in charge of Tencent's online search business from 2010 to 2012 and served as the senior executive vice president of Tencent from 1999. Mr. Li was recognized as "China Top CIO" by the CEO and CIO magazine in 2008. Mr. Li received his bachelor's degree in computer software from South China University of Technology in 1994 and his master's degree in business administration from China Europe International Business School in 2017.

*Ms. Brenda Pui Man Tam* will serve as our independent director starting from the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Ms. Tam served as a partner at the Beijing office of PricewaterhouseCoopers China and PricewaterhouseCoopers Hong Kong from 2007 to 2016 and a senior manager at the Beijing office of PricewaterhouseCoopers China from 2006 to 2007. Prior to that, Ms. Tam served as an audit experienced manager and an audit senior manager at the San Jose office of PricewaterhouseCoopers LLP from 2000 to 2006. Ms. Tam also served in multiple audit positions at PricewaterhouseCoopers Hong Kong from 1995 to 2000 and at Ernst & Young Hong Kong from 1992 to 1995. Ms. Tam received her bachelor's degree in accountancy from City University of Hong Kong in 1992. Ms. Tam is qualified as a certified public accountant (inactive) in the United States (California), a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.

*Mr. Robin Li Xu* has served as our vice president in charge of products and growth since August 2013. Prior to joining our company, from 2006 to 2013, Mr. Xu held several positions at Tencent, and was a senior product manager in the infrastructure platform department of Tenpay, a leading online payment platform in China owned by Tencent, and was responsible for product development and operations. Mr. Xu received his bachelor's degree in science from Heilongjiang University in 2006.

*Ms. Ching-Yee Joey Poon* has served as our head of compliance since September 2016. Prior to joining our company, Ms. Poon had served in several senior roles for Xinhua International Futures (Hong Kong) Co. Ltd., including as the responsible officer, dealing business manager and chief operating officer, where she supervised its dealing function and monitored its trading activities from 2015 to 2016. Ms. Poon also served as the head and responsible officer of the futures dealing department at Rifa Futures Limited and Rifa Securities Limited from 2013 to 2015. She engaged in trading business and served various roles as trader and dealer in Hong Kong and New York since 2009. Ms. Poon received her bachelor's degree in business administration from Zicklin School of Business at CUNY Bernard M. Baruch College in 2008.

## **Board of Directors**

Our board of directors will consist of five directors upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. A director who is, directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company shall declare the

---

## [Table of Contents](#)

nature of his interest at a meeting of our directors. A director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. Our directors may exercise all the powers of our company to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

### **Committees of the Board of Directors**

We will establish three committees under the board of directors immediately upon the effectiveness of our registration statement on Form F-1, of which this prospectus is a part: an audit committee, a compensation committee and a nominating and corporate governance committee. We expect to adopt a charter for each of the three committees. Each committee's members and functions are described below.

**Audit Committee.** Our audit committee will consist of Ms. Brenda Pui Man Tam, Mr. Vic Haixiang Li and Mr. Leaf Hua Li. Ms. Brenda Pui Man Tam will be the chairperson of our audit committee. We have determined that Ms. Brenda Pui Man Tam and Mr. Vic Haixiang Li each satisfies the "independence" requirements of Rule 5605(c)(2) of the Nasdaq Stock Market Rules and meet the independence standards under Rule 10A-3 under the Exchange Act, as amended. We have determined that Ms. Brenda Pui Man Tam qualifies as an "audit committee financial expert" within the meaning of the SEC rules and possesses financial sophistication within the meaning of the Nasdaq Stock Market Rules. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

**Compensation Committee.** Our compensation committee will consist of Mr. Vic Haixiang Li, Ms. Brenda Pui Man Tam and Mr. Leaf Hua Li. Mr. Vic Haixiang Li will be the chairman of our compensation committee. We have determined that Mr. Vic Haixiang Li and Ms. Brenda Pui Man Tam each satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee will be responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and

---

## [Table of Contents](#)

- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee will consist of Mr. Leaf Hua Li, Mr. Vic Haixiang Li and Ms. Brenda Pui Man Tam. Mr. Leaf Hua Li will be the chairman of our nominating and corporate governance committee. Mr. Vic Haixiang Li and Ms. Brenda Pui Man Tam each satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The nominating and corporate governance committee will assist the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee will be responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

### **Duties of Directors**

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise skills they actually possess and such care and diligence that a reasonably prudent person could exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

### **Terms of Directors and Officers**

Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders. Our directors are not subject to a term of office and hold office until such time as they are removed

---

## [Table of Contents](#)

from office by ordinary resolution of our shareholders. A director will cease to be a director automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to our company; or (iv) without special leave of absence from the our board, is absent from meetings of our board for three consecutive meetings and our board resolves that his office be vacated.

Our officers are elected by and serve at the discretion of our board of directors.

### **Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

### **Compensation of Directors and Executive Officers**

For the fiscal year ended December 31, 2017, we paid an aggregate of HK\$4.9 million (US\$0.6 million) in cash to our executive officers, and we did not pay any compensation to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and VIE are required by law to make contributions equal to certain

---

## [Table of Contents](#)

percentages of each employee's salary for his or her medical insurance, maternity insurance, workplace injury insurance, unemployment insurance, pension benefits through a PRC government-mandated multi-employer defined contribution plan and other statutory benefits. Our Hong Kong subsidiaries are required by the Hong Kong Mandatory Provident Fund Schemes Ordinance to make monthly contributions to the mandatory provident fund scheme in an amount equal to at least 5% of an employee's salary.

### **Amended and Restated 2014 Share Incentive Plan**

In December 2018, our board of directors approved the Amended and Restated 2014 Share Incentive Plan, or the A&R 2014 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. As of the date of this prospectus, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the A&R 2014 Plan is 135,032,132 ordinary shares, subject to amendment. As of the date of this prospectus, awards to purchase 121,250,465 ordinary shares under the A&R 2014 Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs describe the principal terms of the A&R 2014 Plan.

*Types of awards.* The 2014 Plan permits the awards of options approved by the plan administrator.

*Plan administration.* Our board of directors or a committee of one or more members appointed by our board of directors or another committee within its delegated authority by our board of directors will administer the A&R 2014 Plan. Subject to the terms of the A&R 2014 Plan and in the case of the committee, the specific duties delegated by our board of directors to the committee, the plan administrator has the authority to determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award, among others.

*Award agreement.* Awards granted under the A&R 2014 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

*Eligibility.* We may grant awards to, among others, our officers, employees, directors and consultants of our company.

*Vesting schedule.* In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

*Exercise of options.* The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

*Transfer restrictions.* Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the A&R 2014 Plan, such as transfers by will or the laws of descent and distribution, or as provided in the relevant award agreement or otherwise determined by the plan administrator.

*Termination and amendment of the A&R 2014 Plan.* Unless terminated earlier, the A&R 2014 Plan has a term of ten years. Our board of directors has the authority to terminate, amend or modify the plan. No amendment, suspension or termination of the A&R 2014 Plan or amendment of any outstanding award granted pursuant to the A&R 2014 Plan may affect, in any manner materially adverse to the participant, any rights or benefits of the participant or the obligation of the company under the applicable awards previously granted pursuant to the A&R 2014 Plan unless agreed by the participant in writing.

---

## [Table of Contents](#)

The following table summarizes, as of the date of this prospectus, the options granted under the A&R 2014 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

<u>Name</u>	<u>Ordinary Shares Underlying Options Awarded</u>	<u>Exercise Price (US\$/Share)</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Ppchen Weihua Chen	14,737,220	Nominal	July 1, 2015	October 30, 2024
Nineway Jie Zhang	8,075,000	Nominal	November 1, 2014	October 30, 2024
Robin Li Xu	*	Nominal	November 1, 2014	October 30, 2024
Arthur Yu Chen	*	Nominal	November 8, 2018	October 30, 2024
Ching-Yee Joey Poon	*	Nominal	November 8, 2018	October 30, 2024
Total	<u>121,250,465</u>	Nominal		

\* Less than 1% of our total outstanding ordinary shares on an as-converted basis.

### **2019 Share Incentive Plan**

In December 2018, our board of directors approved the 2019 Share Incentive Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2019 Share Incentive Plan, or the 2019 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards is a number of up to 2% of the total number of shares issued and outstanding on September 29, 2019 as determined by our board, plus an annual increase on each September 30 during the term of the 2019 Plan commencing on September 30, 2020, by an amount determined by our board; provided, however, that (i) the total number of shares increased in each year shall not be more than 2% of the total number of shares issued and outstanding on September 29 of the same year and (ii) the aggregate number of shares initially reserved and subsequently increased during the term of the 2019 Plan shall not be more than 8% of the total number of shares issued and outstanding on September 29 immediately preceding the most recent increase. As of the date of this prospectus, no award has been granted under the 2019 Plan.

The following paragraphs describe the principal terms of the 2019 Plan.

*Types of Awards.* The 2019 Plan permits the awards of options, restricted shares, restricted share units, or any other type of awards that the committee decides.

*Plan Administration.* Our board of directors or a committee designated by the board of directors will act as the plan administrator. The plan administrator will determine the participants who are to receive awards, the type or types of awards to be granted, the number of awards to be granted, and the terms and conditions of each award grant.

*Award Agreement.* Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

*Eligibility.* We may grant awards to our employees, directors and consultants of our company. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our parent companies and subsidiaries.

*Vesting Schedule.* In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

*Transfer Restrictions.* Awards may not be transferred in any manner by the recipient other than in accordance with the exceptions provided in the 2019 Plan, such as transfers by will or the laws of descent and distribution.

---

[Table of Contents](#)

*Termination and Amendment of the 2019 Plan.* Unless terminated earlier, the 2019 Plan has a term of ten years. Our board of directors has the authority to amend or terminate the 2019 Plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the relevant grantee.

***Equity Incentive Trust***

FUTU First Trust was established under a deed of declaration by Vistra Trust (Singapore) Pte. Limited, or Vistra Trust, as trustee, dated November 30, 2018. Through FUTU First Trust, our Class A ordinary shares and other rights and interests under awards granted pursuant to our A&R 2014 Plan may be provided to certain grant recipients. As of the date of this prospectus, some of our grantees under the A&R 2014 Plan, all of which are our employees, participated in the FUTU First Trust.

Participants in FUTU First Trust transfer their equity awards to Vistra Trust to be held for their benefit. Upon satisfaction of vesting conditions and request by grant recipients, Vistra Trust will exercise the equity awards and transfer the relevant Class A ordinary shares and other rights and interest under the equity awards to the underlying grant participants upon the written direction of the trust administrator. The deed provides that Vistra Trust shall not exercise the voting rights attached to such Class A ordinary shares unless otherwise directed by the trust administrator, which is an advisory committee consisting of authorized representatives of our company.

## PRINCIPAL SHAREHOLDERS

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this prospectus by:

- each of our directors and executive officers;
- each person known to us to own beneficially more than 5% of our ordinary shares; and
- certain less than 5% shareholders that have voluntarily disclosed their ownership of our shares.

The calculations in the table below are based on 781,681,094 ordinary shares outstanding on an as-converted basis as of the date of this prospectus, and Class A ordinary shares and Class B ordinary shares outstanding immediately after the completion of this offering, assuming the underwriters do not exercise their over-allotment option.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned Prior to This Offering***		Class A Ordinary Shares Beneficially Owned Immediately After This Offering		Class B Ordinary Shares Beneficially Owned Immediately After This Offering		Voting Power After This Offering****
	Number	%	Number	%	Number	%	%
<b>Directors and Executive Officers**:</b>							
Leaf Hua Li(1)	403,750,000	51.7%					
Ppchen Weihua Chen(2)	11,052,915	1.4%					
Arthur Yu Chen(3)	—	—					
Nineway Jie Zhang(4)	8,075,000	1.0%					
Shan Lu(5)	—	—					
Robin Li Xu	*	*					
Ching-Yee Joey Poon(6)	—	—					
Vic Haixiang Li†(7)	—	—					
Brenda Pui Man Tam†(8)	—	—					
All Directors and Executive Officers as a Group	425,537,915	53.0%					
<b>Principal Shareholders:</b>							
Entities affiliated with Leaf Hua Li(9)	403,750,000	51.7%					
Entities affiliated with Tencent(10)	298,487,812	38.2%					
Matrix Partners China III Hong Kong Limited(11)	47,965,811	6.1%					
Entities affiliated with Sequoia(12)	31,477,471	4.0%					

\* Less than 1% of our total outstanding ordinary shares on an as-converted basis.

## Table of Contents

- \*\* Except as indicated otherwise below, the business address of our directors and executive officers is 9/F, Unit 3, Building C, Kexing Science Park, 15 Keyuan Road, Technology Park, Nanshan District, Shenzhen, People's Republic of China.
- \*\*\* Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the SEC.
- \*\*\*\* For each person or group included in this column, percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by such person or group with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of our Class A ordinary shares is entitled to one vote per share. Each holder of our Class B ordinary shares is entitled to twenty votes per share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a one-for-one basis, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.
- † Each of Mr. Vic Haixiang Li and Ms. Brenda Pui Man Tam has accepted appointment to be a director of our company, effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.
- (1) Represents 302,812,500 ordinary shares held by Lera Ultimate Limited, a BVI business company, and 100,937,500 ordinary shares held by Lera Infinity Limited, a BVI business company. Lera Ultimate Limited is ultimately owned by Lera Direction Trust and Lera Infinity Limited is ultimately owned by Lera Target Trust. Mr. Leaf Hua Li is the settlor and sole beneficiary of both Lera Direction Trust and Lera Target Trust. Under the terms of these two trusts, Mr. Li has the power to direct the retention or disposal of, and the exercise of any voting and other rights attached to the shares held by Lera Ultimate Limited and Lera Infinity Limited in our company. The registered address of each of Lera Ultimate Limited and Lera Infinity Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
  - (2) Represents 11,052,915 options granted to Mr. PPchen Weihua Chen to purchase 11,052,915 class A ordinary shares of the company which held by Remarkable Movement Limited, a BVI business company. Remarkable Movement Limited is ultimately owned by PPchen Family Trust. Mr. Chen is the settlor of PPchen Family Trust. Mr. Chen and his family are the beneficiaries of PPchen Family Trust. Under the terms of the trust, Mr. Chen has the power to direct the retention or disposal of, and the exercise of any voting and other rights attached to the options held by Remarkable Movement Limited in our company. The registered address of Remarkable Movement Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
  - (3) The business address of Mr. Arthur Yu Chen is 11/F, Bangkok Bank Building, No. 18 Bonham Strand W, Sheung Wan, Hong Kong S.A.R., People's Republic of China.
  - (4) Represents 8,075,000 options granted to Mr. Nineway Jie Zhang to purchase 8,075,000 class A ordinary shares of the company which held by Diamond Orbit Investments Limited, a BVI business company. Diamond Orbit Investments Limited is ultimately owned by Nineway Family Trust. Mr. Zhang is the settlor of Nineway Family Trust. Mr. Zhang and his family are the beneficiaries of Nineway Family Trust. Under the terms of the trust, Mr. Zhang has the power to direct the retention or disposal of, and the exercise of any voting and other rights attached to the options held by Diamond Orbit Investments Limited in our company. The registered address of Diamond Orbit Investments Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
  - (5) The business address of Mr. Shan Lu is 15/F, Langke Building, Nanshan District, Shenzhen, People's Republic of China.
  - (6) The business address of Ms. Ching-Yee Joey Poon is 11/F, Bangkok Bank Building, No. 18 Bonham Strand W, Sheung Wan, Hong Kong S.A.R., People's Republic of China.
  - (7) The business address of Mr. Vic Haixiang Li is Suite 7013, 70/F, International Finance Centre, 8 Finance District, Central, Hong Kong S.A.R., People's Republic of China.
  - (8) The business address of Ms. Brenda Pui Man Tam is 65 Dot Ave, Campbell, CA, 95008, the United States of America.
  - (9) Represents 302,812,500 ordinary shares held by Lera Ultimate Limited, a BVI business company, and 100,937,500 ordinary shares held by Lera Infinity Limited, a BVI business company. Lera Ultimate Limited is ultimately owned by Lera Direction Trust and Lera Infinity Limited is ultimately owned by Lera Target Trust. Mr. Leaf Hua Li is the settlor and sole beneficiary of both Lera Direction Trust and Lera Target Trust. Under the terms of these two trusts, Mr. Li has the power to direct the retention or disposal of, and the exercise of any voting and other rights attached to the shares held by Lera Ultimate Limited and Lera Infinity Limited in our company.
  - (10) Represents (i) 89,285,500 Series A preferred shares and 80,357,500 Series B preferred shares directly held by Qiantang River Investment Limited, a limited liability company incorporated in British Virgin Islands, (ii) 71,024,142 Series C preferred shares directly held by Image Frame Investment (HK) Limited, a limited liability company incorporated in Hong Kong, (iii) 28,205,205 Series C preferred shares directly held by TPP Follow-on I Holding A Limited, a limited liability company incorporated in the Cayman Islands, and (iv) 29,615,465 Series C preferred shares directly held by TPP Opportunity I Holding A Limited, a limited liability company incorporated in the Cayman Islands. Qiantang River Investment Limited, Image Frame Investment (HK) Limited, TPP Follow-on I Holding A Limited and TPP Opportunity I Holding A Limited are investing entities either directly or beneficially owned by Tencent Holdings Limited, and are collectively referred to as entities affiliated with Tencent. Tencent Holdings Limited is a limited liability company incorporated in the Cayman Islands and is listed on the Hong Kong Stock Exchange. The registered address of Qiantang River Investment Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, VG1110, British Virgin Islands. The registered address of Image Frame Investment (HK) Limited is 29/F., Three Pacific Place, No. 1, Queen's Road East, Wanchai, Hong Kong. The registered address of TPP Follow-on I Holding A Limited is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The registered address of TPP Opportunity I Holding A Limited is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.
  - (11) Represents 35,714,500 Series A preferred shares, 4,870,000 Series B preferred shares and 7,381,311 Series C-1 preferred shares held by Matrix Partners China III Hong Kong Limited, a company incorporated in Hong Kong. The registered office address of Matrix Partners China III Hong Kong Limited is Suites 3701-3710, 37/F, Jardine House, 1 Connaught Place, Central, Hong Kong. Matrix Partners China III Hong Kong Limited is controlled by Matrix Partners China III, L.P., which holds 90% of its equity interest. The remaining 10% of the equity interest is held by Matrix Partners China III-A, L.P. Both Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P. are managed by Matrix China III GP GP, Ltd. Timothy A. Barrows, David Ying Zhang, David Su and Yibo Shao are directors of Matrix

---

## [Table of Contents](#)

China III GP GP, Ltd. and are deemed to have shared voting and investment power over the shares held by Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P. The registered office address of Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

- (12) Represents (i) 23,437,500 Series A-1 preferred shares and 3,196,000 Series B preferred shares held by Sequoia Capital CV IV Holdco, Ltd., an exempted company with limited liability incorporated in the Cayman Islands, and (ii) 4,843,971 Series C-1 preferred shares held by SCC Venture VI Holdco, Ltd., an exempted company with limited liability incorporated in the Cayman Islands. The sole shareholder of Sequoia Capital CV IV Holdco, Ltd. is Sequoia Capital CV IV Senior Holdco, Ltd. The sole shareholder of Sequoia Capital CV IV Senior Holdco, Ltd. is Sequoia Capital China Venture Fund IV, L.P. The general partner of Sequoia Capital China Venture Fund IV, L.P. is SC China Venture IV Management, L.P., whose general partner is SC China Holding Limited. The sole shareholder of SCC Venture VI Holdco, Ltd. is Sequoia Capital China Venture Fund VI, L.P. The general partner of Sequoia Capital China Venture Fund VI, L.P. is SC China Venture VI Management, L.P., whose general partner is SC China Holding Limited. SC China Holding Limited is wholly owned by SNP China Enterprises Limited, which in turn is wholly owned by Mr. Neil Nanpeng Shen. The registered address of each of Sequoia Capital CV IV Holdco, Ltd. and SCC Venture VI Holdco, Ltd. is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

As of the date of this prospectus, none of our ordinary shares or preferred shares are held by record holders in the United States.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See “Description of Share Capital—History of Securities Issuances” for historical changes in our shareholding structure.

## RELATED PARTY TRANSACTIONS

### Contractual Arrangements with Our VIE and Its Shareholders

See “Corporate History and Structure.”

### Private Placements

See “Description of Share Capital—History of Securities Issuances.”

### Shareholders Agreement

See “Description of Share Capital—History of Securities Issuances—Shareholders Agreement.”

### Employment Agreements and Indemnification Agreements

See “Management—Employment Agreements and Indemnification Agreements.”

### Share Incentive Plan

See “Management—Amended and Restated 2014 Share Incentive Plan” and “Management—2019 Share Incentive Plan.”

### Transactions and Strategic Cooperation with Tencent

*Transactions with Tencent.* Tencent has been a principal shareholder of us since October 2014. We purchased cloud and SMS channel services from Tencent in the amount of HK\$5.6 million and HK\$8.8 million (US\$1.1 million) in 2016 and 2017, respectively. As of December 31, 2016 and 2017 and September 30, 2018, we had amounts due to Tencent of HK\$6.5 million, HK\$14.7 million (US\$1.9 million) and HK\$4.2 million (US\$0.5 million), respectively. In the past, Tencent extended to us certain short-term loans through its affiliates. As of December 31, 2016 and 2017, we had amounts due to Tencent of HK\$161.2 million and HK\$400.0 million (US\$51.1 million), respectively, which represent the balance of such loans we owed to Tencent’s affiliates. These loans were paid in full in 2017 and 2018, as applicable. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Indebtedness—Short-Term Borrowings.”

*Strategic Cooperation Framework Agreement.* We work with our strategic investor, Tencent, across a number of cooperation areas in a mutually beneficial relationship. Our collaboration is in part driven by our shared values of technological excellence and innovation. Collaborating with Tencent creates meaningful advantages to us. In December 2018, Shenzhen Futu, one of our operating entities in China, entered into a strategic cooperation framework agreement with Shenzhen Tencent Computer System Co., Ltd. (深圳市腾讯计算机系统有限公司), a subsidiary of Tencent. Pursuant to the strategic cooperation framework agreement, subject to further definitive agreements to be entered into between the parties, and to the extent in compliance with applicable laws and regulations, Tencent agreed to cooperate with us in traffic, content and cloud areas through Tencent’s online platform. In addition, to the extent permitted by the applicable laws and regulations, we and Tencent agreed to further explore and pursue additional opportunities for potential cooperation in the area of fintech-related products and services to expand both parties’ international operations. Tencent also agreed to cooperate with us in the areas of ESOP services, administration, talent recruiting and training. The strategic cooperation framework agreement has a term of three years unless Tencent ultimately holds less than 15% of our outstanding shares (including through convertible notes and/or other convertible rights that can be converted into ours shares), in which case the agreement will be terminated. After the expiration of the agreement, if both parties intend to continue the cooperation under the agreement, a separate written agreement will be executed upon negotiation of the parties. The agreement is governed by PRC law. For any dispute arising out of or relating to the agreement, the parties should first strive to resolve the dispute through amicable consultation. In case no settlement can be reached through consultation within thirty (30) days after either party has issued a notice to the other party on such dispute, either we or Tencent can bring the dispute to a Nanshan district court in Shenzhen, China for resolution.

**Transactions with a Director and an Executive Officer**

Since September 2016, we entered into a series of loan agreements with Mr. Nineway Jie Zhang, our director. Under these agreements, Mr. Zhang borrowed from us RMB4.3 million (US\$0.6 million) with a fixed interest rate of 4.0% per annum. Mr. Zhang has repaid the outstanding balance of such loans in December 2018.

In the past, through our margin financing services, we extended margin loans to our chief executive officer Mr. Leaf Hua li and his family member, our vice president Mr. Robin Li Xu and his family member, and our director Nineway Jie Zhang, under the ordinary terms and conditions we offer to our clients in our margin financing business. Mr. Li and his family member, Mr. Xu and his family member, and Mr. Zhang have repaid their respective outstanding balances of such margin loans in December 2018.

## DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company incorporated with limited liability and our affairs are governed by our memorandum and articles of association and the Companies Law (2018 Revision) of the Cayman Islands, which we refer to as the Companies Law below, and the common law of the Cayman Islands.

As of the date of this prospectus, our authorized share capital is US\$50,000 divided into 5,000,000,000 shares, par value of US\$0.00001 each, of which (i) 4,622,068,906 shares are designated as ordinary shares; (ii) 125,000,000 shares are designated as Series A preferred shares; (iii) 23,437,500 shares are designated as Series A-1 preferred shares; (iv) 88,423,500 shares are designated as Series B preferred shares; (v) 128,844,812 shares are designated as Series C preferred shares; and (vi) 12,225,282 shares are designated as Series C-1 preferred shares. As of the date of this prospectus, 403,750,000 ordinary shares and 377,931,094 preferred shares are issued and outstanding.

Immediately prior to the completion of this offering, all classes of our issued and outstanding preferred shares and ordinary shares will be redesignated as ordinary shares on a one-for-one-basis and our authorized share capital immediately prior to the completion of this offering will be US\$500,000 divided into 50,000,000,000 shares comprising (i) 48,700,000,000 Class A Ordinary Shares of a par value of US\$0.00001 each, (ii) 800,000,000 Class B Ordinary Shares of a par value of US\$0.00001 each and (iii) 500,000,000 shares of a par value of US\$0.00001 each of such class or classes (however designated) as our board of directors may determine in accordance with our post-offering amended and restated memorandum and articles of association.

Immediately prior to the completion of this offering, our authorized share capital will be changed into US\$500,000 divided into 50,000,000,000 shares comprising of (i) 48,700,000,000 Class A ordinary shares of a par value of US\$0.00001 each, (ii) 800,000,000 Class B ordinary shares of a par value of US\$0.00001, and (iii) 500,000,000 shares of a par value of US\$0.00001 each of such class or classes (however designated) as the board of directors may determine in accordance with our post-offering memorandum and articles of association. All of our shares to be issued in the offering will be issued as fully paid.

### **Our Post-Offering Memorandum and Articles**

Our shareholders have adopted a fourth amended and restated memorandum and articles of association, which will become effective and replace our current third amended and restated memorandum and articles of association in its entirety immediately prior to the completion of this offering. The following are summaries of material provisions of the post-offering amended and restated memorandum and articles of association that we have adopted and of the Companies Law, insofar as they relate to the material terms of our ordinary shares.

*Objects of Our Company.* Under our post-offering amended and restated memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

*Ordinary Shares.* Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at our general meetings, and each Class B ordinary share shall entitle the holder thereof to twenty (20) votes on all matters subject to vote at our general meetings. Our ordinary shares are issued in registered form and are issued when registered in our register of members. We may not issue shares to bearer. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

*Conversion.* Class B ordinary shares may be converted into the same number of Class A ordinary shares by the holders thereof at any time, while Class A ordinary shares cannot be converted into Class B ordinary shares under any circumstances.

---

## [Table of Contents](#)

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors or declared by our shareholders by ordinary resolution (provided that no dividend may be declared by our shareholders which exceeds the amount recommended by our directors). Our post-offering amended and restated articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

*Voting Rights.* Holders of Class A ordinary shares and Class B ordinary shares shall, at all times, vote together as one class on all matters submitted to a vote by the members at any general meeting of the Company. Each Class A ordinary share shall be entitled to one vote on all matters subject to the vote at general meetings of our company, and each Class B ordinary share shall be entitled to twenty (20) votes on all matters subject to the vote at general meetings of our company. At any general meeting a resolution put to the vote at the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of such meeting or any one shareholder present in person or by proxy.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares which are cast at the meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the outstanding ordinary shares which are cast at the meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our post-offering amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our post-offering memorandum and articles of association.

*General Meetings of Shareholders.* As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our post-offering memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board or a majority of our board of directors. Advance notice of at least ten (10) calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of one or more shareholders present or by proxy, holding shares which carry in aggregate not less than one-third of all votes attaching to all of our shares in issue and entitled to vote at such general meeting.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our post-offering memorandum and articles of association provide that upon the requisition of one or more shareholders holding shares which carry in aggregate not less than one-third of the total number of votes attaching to all outstanding and issued shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our post-offering memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

*Board of Directors.* Unless otherwise determined by us in a general meeting, the number of directors shall not be less than three (3) directors, the exact number of directors to be determined from time to time by the board of directors. We may appoint any person to be a director by ordinary resolution, and the board may, by the

---

## [Table of Contents](#)

affirmative vote of a simple majority of the remaining directors present and voting at a board meeting, appoint any person as a director, to fill a casual vacancy on the board or as an addition to the existing board.

Notwithstanding anything in the post-offering amended and restated memorandum and articles of association, for as long as the Tencent investors (as defined in the fourth amended and restated memorandum and articles of association) together hold at least 91,671,323 shares (as defined in the fourth amended and restated memorandum and articles of association) of the Company (as may be adjusted by share splits, recapitalization, reorganization, consolidation or other similar transaction), the Tencent investors shall have the right to appoint one (1) director to the board ("Tencent Director") by sending a joint notice to the Company's Registered Office. The Tencent Director may only be removed as directed or approved by both Tencent investors, and any vacancies created by the resignation, removal or death of the Tencent director shall be filled pursuant to the term described above. The term of the Tencent director shall automatically end once the Tencent investors together hold less than 91,671,323 shares of the Company (as may be adjusted by share splits, recapitalization, reorganization, consolidation or other similar transaction).

*Transfer of Ordinary Shares.* Subject to the restrictions set out in our post-offering memorandum and articles of association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in any usual or common form approved by our board, and shall be executed by or on behalf of the transferor, and if in respect of any nil or partly paid up share or if so required by our directors, shall also be executed by or on behalf of by the transferee.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

*Liquidation.* On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

---

## [Table of Contents](#)

*Redemption, Repurchase and Surrender of Shares.* We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors, or by a special resolution of our shareholders. Our Company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Law, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

*Variations of Rights of Shares.* If at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class), whether or not our company is being wound-up, may be varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a resolution passed by a majority of two-thirds of the votes cast at a separate meeting of the issued shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

*Issuance of Additional Shares.* Our post-offering amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our post-offering amended and restated memorandum of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

*Inspection of Books and Records.* Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See "Where You Can Find Additional Information."

*Anti-Takeover Provisions.* Some provisions of our post-offering memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our post-offering memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Exempted Company.* We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that

---

## [Table of Contents](#)

is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

### **Differences in Corporate Law**

The Companies Law derived, to a large extent, from the older Companies Acts of England but does not follow recent English statutory enactments and accordingly there are significant differences between the Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

*Mergers and Similar Arrangements.* The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the

---

## [Table of Contents](#)

parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Companies Law. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Law also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, save that objectors to a takeover offer may apply to the Grand Court of the Cayman Islands for various orders that the Grand Court of the Cayman Islands has a broad discretion to make, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

*Shareholders' Suits.* In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

*Indemnification of Directors and Executive Officers and Limitation of Liability.* Cayman Islands law does not limit the extent to which a company’s memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman

---

## [Table of Contents](#)

Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our post-offering memorandum and articles of association provide that we shall indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such directors or officer, other than by reason of such person's dishonesty, willful default or fraud, in or about the conduct of our company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our post-offering amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

*Directors' Fiduciary Duties.* Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

*Shareholder Action by Written Consent.* Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our post-offering amended and restated memorandum and articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

---

## [Table of Contents](#)

*Shareholder Proposals.* Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our post-offering amended and restated memorandum and articles of association allow any one or more shareholders who together hold shares which carry in aggregate not less than one-third of the total number of votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, our post-offering amended and restated memorandum and articles of association do not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings. As a Cayman Islands exempted company, we are not obliged by law to call shareholders' annual general meetings.

*Cumulative Voting.* Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our post-offering amended and restated memorandum and articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

*Removal of Directors.* Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our post-offering amended and restated memorandum and articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders.

*Transactions with Interested Shareholders.* The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

*Cayman Islands law has no comparable statute.* As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

*Dissolution; Winding up.* Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting

---

## [Table of Contents](#)

power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our post-offering amended and restated memorandum and articles of association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

*Variation of Rights of Shares.* Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our post-offering amended and restated articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of two-thirds of the issued shares of that class or with the sanction of a resolution passed by a majority of two-thirds of the votes cast at a separate meeting of the holders of the shares of that class.

*Amendment of Governing Documents.* Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our post-offering amended and restated memorandum and articles of association may only be amended with a special resolution of our shareholders.

*Rights of Non-resident or Foreign Shareholders.* There are no limitations imposed by our post-offering amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our post-offering amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### **History of Securities Issuances**

The following is a summary of our securities issuances in the past three years.

#### *Ordinary Shares*

We were incorporated in the Cayman Islands on April 15, 2014. Upon our incorporation, we issued one ordinary share to Nominees Services Ltd., which subsequently transferred the share to Mr. Leaf Hua Li, our founder, chairman and chief executive officer, for a consideration of US\$0.005. On the same date, we further issued 807,499 ordinary shares to Mr. Li for an aggregate consideration of US\$4,037,495.

#### *Preferred Shares*

On October 31, 2014, we issued 178,571 Series A preferred shares to Qiantang River Investment Limited for an aggregate consideration of US\$5.0 million, 71,429 Series A preferred shares to Matrix Partners China III Hong Kong Limited for an aggregate consideration of US\$2.0 million and 46,875 Series A-1 preferred shares to Sequoia Capital CV IV Holdco, Ltd. for an aggregate consideration of US\$1.5 million.

On May 27, 2015, we issued 160,715 Series B preferred shares to Qiantang River Investment Limited for an aggregate consideration of approximately US\$27.3 million, 9,740 Series B preferred shares to Matrix Partners China III Hong Kong Limited for an aggregate consideration of approximately US\$1.7 million and 6,392

---

## [Table of Contents](#)

Series B preferred shares to Sequoia Capital CV IV Holdco, Ltd. for an aggregate consideration of approximately US\$1.1 million.

On May 22, 2017, we issued 128,844,812 Series C preferred shares to Image Frame Investment (HK) Limited for an aggregate consideration of US\$91.4 million, 7,381,311 Series C-1 preferred shares to Matrix Partners China III Hong Kong Limited for an aggregate consideration of US\$7.6 million and 4,843,971 Series C-1 preferred shares to SCC Venture VI Holdco, Ltd. for an aggregate consideration of US\$5.0 million.

On November 24, 2017, Image Frame Investment (HK) Limited transferred 28,205,205 Series C preferred shares to TPP Follow-on I Holding A Limited for an aggregate consideration of US\$20.0 million and 29,615,465 Series C preferred shares to TPP Opportunity I Holding A Limited for an aggregate consideration of US\$21.0 million.

### *Share Split*

On September 22, 2016, we effected a 1 to 500 share split whereby all of our 807,500 ordinary shares, par value US\$0.005 each, that were issued and outstanding at the time were converted into 403,750,000 ordinary shares, par value US\$0.00001 each; all of our 250,000 Series A preferred shares, par value US\$0.005 each, that were issued and outstanding at the time were converted into 125,000,000 Series A preferred shares, par value US\$0.00001 each; all of our 46,875 Series A-1 preferred shares, par value US\$0.005 each, that were issued and outstanding at the time were converted into 23,437,500 Series A-1 preferred shares, par value US\$0.00001 each; all of our 176,847 Series B preferred shares, par value US\$0.005 each, that were issued and outstanding at the time were converted into 88,423,500 Series B preferred shares, par value US\$0.00001 each. As a result of the share split, the number of our total authorized shares was increased from 10,000,000 to 5,000,000,000 on September 22, 2016. The number of our authorized ordinary shares was increased from 9,526,278 to 4,763,139,000, the number of our authorized Series A preferred shares was increased from 250,000 to 125,000,000, the number of our authorized Series A-1 preferred shares was increased from 46,875 to 23,437,500 and the number of our authorized Series B preferred shares was increased from 176,847 to 88,423,500. The share split has been retroactively reflected for all periods presented herein.

### *Option Grants*

We have granted options to purchase our ordinary shares to certain of our directors, executive officers and employees. See “Management—Amended and Restated 2014 Share Incentive Plan.”

### *Shareholders Agreement*

We entered into a second amended and restated shareholders agreement on May 22, 2017 with our shareholders, which consist of holders of our ordinary shares and preferred shares.

The shareholders agreement provides for certain shareholders rights, including right of first refusal, co-sale rights, preemptive rights and contains provisions governing the board of directors and other corporate governance matters. Those special rights, as well as the corporate governance provisions, will automatically terminate upon the completion of a qualified initial public offering.

### *Registration Rights*

Our registrable securities will include (i) the ordinary shares issued or issuable upon conversion of the preferred shares, (ii) any ordinary shares we issued or issuable as a dividend or other distribution with respect to, in exchange for, or in replacement of, the shares referenced in (i) herein, and (iii) any ordinary shares owned or hereafter acquired by the holders of Series A preferred shares, Series A-1 preferred shares, Series B preferred shares, Series C preferred shares and Series C-1 preferred shares.

### *Demand Registration Rights*

*Registration other than on Form F-3 or Form S-3.* At any time or from time to time after the earlier of (i) May 27, 2023 or (ii) the date that is six (6) months after the closing of the IPO, holder(s) holding ten percent

---

## [Table of Contents](#)

(10%) or more of the voting power of the then outstanding registrable securities held by all holders may request in writing that we effect a registration of the registrable securities. Upon receipt of such a request, we shall promptly give written notice of the proposed registration to all other holders and as soon as practicable, use its best efforts to cause the registrable securities specified in the request, together with any registrable securities of any holder who requests in writing to join such registration within fifteen (15) business days after our delivery of written notice, to be registered and/or qualified for sale and distribution in such jurisdiction as the initiating holders may request. We shall be obligated to effect no more than three (3) registrations that have been declared and ordered effective; provided that if the sale of all of the registrable securities sought to be included is not consummated, such registration shall not be deemed to constitute one of the registration rights.

*Registration on Form F-3 or Form S-3.* If we qualify for registration on Form F-3 or Form S-3 (or any comparable form for registration in a jurisdiction other than the United States), holder(s) holding ten percent (10%) or more of the voting power of the then outstanding registrable securities held by all holders has the right to request us to file, in any jurisdiction in which we have had a registered underwritten public offering, a registration statement on Form F-3 or Form S-3 (or any comparable form for registration in a jurisdiction other than the United States). Upon receipt of such a request, we shall (i) promptly give written notice of the proposed registration to all other holders and (ii) as soon as practicable, use its best efforts to cause the registrable securities specified in the request, together with any registrable securities of any holder who requests in writing to join such registration within fifteen (15) business days after our delivery of written notice, to be registered and qualified for sale and distribution in such jurisdiction.

### *Piggyback Registration Rights*

If we propose to register any of our securities for a public offering of such securities, or for the account of any holder (other than a holder) of equity securities any of such holder's equity securities (except for exempt registration), we shall promptly give each holder written notice of such registration and, upon the written request of any holder given within fifteen (15) business days after delivery of such notice, we shall use our best efforts to include in such registration any registrable securities thereby requested to be registered by such holder. If a holder decides not to include all or any of its registrable securities in such registration, such holder will continue to have the right to include any registrable securities in any subsequent registration statement as may be filed by us, subject to certain limitations.

### *Expenses of Registration*

We will pay all expenses, other than the underwriting discounts and selling commissions applicable to the sale of registrable securities pursuant to the registration rights (which will be borne by the holders requesting registration on a pro rata basis in proportion to their respective numbers of registrable securities sold in such registration), incurred in connection with registrations, filings or qualifications pursuant to the registration rights, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees charged by depository banks, transfer agents, and share registrars, fees and disbursements of counsel for us and reasonable fees and disbursement of one counsel for all selling holders. However, we are not obligated to pay any expenses of any registration proceeding if the registration request is subsequently withdrawn at the request of the holders holding at least a majority of the voting power of the registrable securities requested to be registered by all the holder in such registration (in which case all participating holders will bear such expenses pro rata based upon the number of registrable securities that were to be thereby registered in the withdrawn registration).

### *Termination of Obligations*

The registration rights set forth above will terminate on the earlier of (i) the date that is five (5) years from the date of closing of a qualified initial public offering and (ii) with respect to any holder, the date on which such holder may sell all of such holder's registrable securities under Rule 144 of the Securities Act in any ninety (90)-day period.

## DESCRIPTION OF AMERICAN DEPOSITARY SHARES

### American Depositary Shares

The Bank of New York Mellon, as depositary, will register and deliver American Depositary Shares, also referred to as ADSs. Each ADSs will represent a right to receive Class A ordinary shares deposited with The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The deposited Class A ordinary shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities. The depositary's office at which the ADSs will be administered and the Bank of New York Mellon's principal executive office are located at 240 Greenwich Street, New York, NY 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution that is a direct or indirect participant in The Depository Trust Company, also called DTC. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depositary confirming their holdings.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. The laws of the Cayman Islands govern shareholder rights. The depositary will be the holder of the Class A ordinary shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly holding or beneficially owning ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR. Directions on how to obtain copies of those documents are provided in "*Where You Can Find Additional Information.*"

### Dividends and Other Distributions

#### *How will you receive dividends and other distributions on the Class A ordinary shares?*

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities, upon payment or deduction of its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent.

- **Cash.** The depositary will convert any cash dividend or other cash distribution we pay on the Class A ordinary shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. See "Taxation." The depositary will distribute only whole U.S. dollars and cents and will

---

## [Table of Contents](#)

round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depository cannot convert the foreign currency, you may lose some of the value of the distribution.

- ***Class A Ordinary Shares.*** The depository may distribute additional ADSs representing any Class A ordinary shares we distribute as a dividend or free distribution. The depository will only distribute whole ADSs. It will sell Class A ordinary shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. If the depository does not distribute additional ADSs, the outstanding ADSs will also represent the new Class A ordinary shares. The depository may sell a portion of the distributed Class A ordinary shares (or ADSs representing those shares) sufficient to pay its fees and expenses in connection with that distribution.
- ***Rights to purchase additional Class A ordinary shares.*** If we offer holders of our securities any rights to subscribe for additional Class A ordinary shares or any other rights, the depository may (i) exercise those rights on behalf of ADS holders, (ii) distribute those rights to ADS holders or (iii) sell those rights and distribute the net proceeds to ADS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the depository does not do any of those things, it will allow the rights to lapse. In that case, you will receive no value for them. The depository will exercise or distribute rights only if we ask it to and provide satisfactory assurances to the depository that it is legal to do so. If the depository will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of Class A ordinary shares, new ADSs representing the new Class A ordinary shares, to subscribing ADS holders, but only if ADS holders have paid the exercise price to the depository. U.S. securities laws may restrict the ability of the depository to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.
- ***Other Distributions.*** The depository will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depository has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depository is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The depository may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depository to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, Class A ordinary shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, Class A ordinary shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you.

### **Deposit, Withdrawal and Cancellation**

#### ***How are ADSs issued?***

The depository will deliver ADSs if you or your broker deposits Class A ordinary shares or evidence of rights to receive Class A ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depository will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

---

[Table of Contents](#)

***How can ADS holders withdraw the deposited securities?***

You may surrender your ADSs to the depositary for the purpose of withdrawal. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the Class A ordinary shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible. However, the depositary is not required to accept surrender of ADSs to the extent it would require delivery of a fraction of a deposited share or other security. The depositary may charge you a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

***How do ADS holders interchange between certificated ADSs and uncertificated ADSs?***

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

**Voting Rights**

***How do you vote?***

ADS holders may instruct the depositary how to vote the number of deposited Class A ordinary shares their ADSs represent. If we request the depositary to solicit your voting instructions (and we are not required to do so), the depositary will notify you of a shareholders' meeting and send or make voting materials available to you. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary. The depositary will try, as far as practical, subject to the laws of the Cayman Islands and the provisions of our articles of association or similar documents, to vote or to have its agents vote the Class A ordinary shares or other deposited securities as instructed by ADS holders. If we do not request the depositary to solicit your voting instructions, you can still send voting instructions, and, in that case, the depositary may try to vote as you instruct, but it is not required to do so.

Except by instructing the depositary as described above, you won't be able to exercise voting rights unless you surrender your ADSs and withdraw the Class A ordinary shares. However, you may not know about the meeting in advance enough to withdraw the Class A ordinary shares. In any event, the depositary will not exercise any discretion in voting deposited securities and it will only vote or attempt to vote as instructed.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the Class A ordinary shares underlying your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise voting rights and there may be nothing you can do if the Class A ordinary shares underlying your ADSs are not voted as you requested.

---

[Table of Contents](#)

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we agree to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 30 days in advance of the meeting date.

**Persons depositing or withdrawing Class A ordinary shares or ADS holders must pay:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been Class A ordinary shares and the Class A ordinary shares had been deposited for issuance of ADSs

\$0.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or Class A ordinary shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

**For:**

- Issuance of ADSs, including issuances resulting from a distribution of Class A ordinary shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS holders
- Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
- Depositary services
- Transfer and registration of Class A ordinary shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw Class A ordinary shares
- Cable and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars
- As necessary
- As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing Class A ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In

---

## [Table of Contents](#)

performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

### **Payment of Taxes**

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

### **Tender and Exchange Offers; Redemption, Replacement or Cancellation of Deposited Securities**

The depositary will not tender deposited securities in any voluntary tender or exchange offer unless instructed to do by an ADS holder surrendering ADSs and subject to any conditions or procedures the depositary may establish.

If deposited securities are redeemed for cash in a transaction that is mandatory for the depositary as a holder of deposited securities, the depositary will call for surrender of a corresponding number of ADSs and distribute the net redemption money to the holders of called ADSs upon surrender of those ADSs.

If there is any change in the deposited securities such as a sub-division, combination or other reclassification, or any merger, consolidation, recapitalization or reorganization affecting the issuer of deposited securities in which the depositary receives new securities in exchange for or in lieu of the old deposited securities, the depositary will hold those replacement securities as deposited securities under the deposit agreement. However, if the depositary decides it would not be lawful and practical to hold the replacement securities because those securities could not be distributed to ADS holders or for any other reason, the depositary may instead sell the replacement securities and distribute the net proceeds upon surrender of the ADSs.

If there is a replacement of the deposited securities and the depositary will continue to hold the replacement securities, the depositary may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

If there are no deposited securities underlying ADSs, including if the deposited securities are cancelled, or if the deposited securities underlying ADSs have become apparently worthless, the depositary may call for surrender of or of those ADSs or cancel those ADSs upon notice to the ADS holders.

---

## [Table of Contents](#)

### **Amendment and Termination**

#### ***How may the deposit agreement be amended?***

We may agree with the depository to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depository for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depository notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

#### ***How may the deposit agreement be terminated?***

The depository will initiate termination of the deposit agreement if we instruct it to do so. The depository may initiate termination of the deposit agreement if

- 90 days have passed since the depository told us it wants to resign but a successor depository has not been appointed and accepted its appointment;
- we delist the ADSs from a securities exchange on which they were listed and do not list the ADSs on another securities exchange;
- we appear to be insolvent or enter insolvency proceedings;
- all or substantially all the value of the deposited securities has been distributed either in cash or in the form of securities;
- there are no deposited securities underlying the ADSs or the underlying deposited securities have become apparently worthless; or
- there has been a replacement of deposited securities.

If the deposit agreement will terminate, the depository will notify ADS holders at least 90 days before the termination date. At any time after the termination date, the depository may sell the deposited securities. After that, the depository will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. Normally, the depository will sell as soon as practicable after the termination date.

After the termination date and before the depository sells, ADS holders can still surrender their ADSs and receive delivery of deposited securities, except that the depository may refuse to accept a surrender for the purpose of withdrawing deposited securities or reverse previously accepted surrenders of that kind if it would interfere with the selling process. The depository may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The depository will continue to collect distributions on deposited securities, but, after the termination date, the depository is not required to register any transfer of ADSs or distribute any dividends or other distributions on deposited securities to the ADSs holder (until they surrender their ADSs) or give any notices or perform any other duties under the deposit agreement except as described in this paragraph.

### **Limitations on Obligations and Liability**

#### ***Limits on our Obligations and the Obligations of the Depository; Limits on Liability to Holders of ADSs***

The deposit agreement expressly limits our obligations and the obligations of the depository. It also limits our liability and the liability of the depository. We and the depository:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith, and the depository will not be a fiduciary or have any fiduciary duty to holders of ADSs;

---

## [Table of Contents](#)

- are not liable if we are or it is prevented or delayed by law or by events or circumstances beyond our or its ability to prevent or counteract with reasonable care or effort from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement, or for any;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person; and
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system.

The depository has no duty to make any determination or provide any information as to our tax status, or any liability for any tax consequences that may be incurred by ADS holders as a result of owning or holding ADSs or be liable for the inability or failure of an ADS holder to obtain the benefit of a foreign tax credit, reduced rate of withholding or refund of amounts withheld in respect of tax or any other tax benefit.

In the deposit agreement, we and the depository agree to indemnify each other under certain circumstances.

### **Requirements for Depository Actions**

Before the depository will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of Class A ordinary shares, the depository may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Class A ordinary shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depository may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depository or our transfer books are closed or at any time if the depository or we think it advisable to do so.

### **Your Right to Receive the Class A Ordinary Shares Underlying your ADSs**

ADS holders have the right to cancel their ADSs and withdraw the underlying Class A ordinary shares at any time except:

- when temporary delays arise because: (i) the depository has closed its transfer books or we have closed our transfer books; (ii) the transfer of Class A ordinary shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our Class A ordinary shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of Class A ordinary shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

---

[Table of Contents](#)

**Direct Registration System**

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the ADSs. DRS is a system administered by DTC that facilitates interchange between registered holding of uncertificated ADSs and holding of security entitlements in ADSs through DTC and a DTC participant. Profile is feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated ADSs, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depository will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depository's reliance on and compliance with instructions received by the depository through the DRS/Profile system and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depository.

**Shareholder Communications; Inspection of Register of Holders of ADSs**

The depository will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depository will send you copies of those communications or otherwise make those communications available to you if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

**Jury Trial Waiver**

The deposit agreement provides that, to the extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws. If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based upon the facts and circumstances of that case in accordance with applicable case law. No provision of the deposit agreement is intended to be deemed a waiver by any holder or beneficial owner of ADSs of the company's or the depository's compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

**Arbitration Provision**

The deposit agreement gives the depository or an ADS holder asserting a claim against us the right to require us to submit that claim to binding arbitration in New York under the Rules of the American Arbitration Association, including any U.S. federal securities law claim. However, a claimant could also elect not to submit its claim to arbitration and instead bring its claim in any court having jurisdiction of it. The deposit agreement does not give us the right to require anyone to submit any claim to arbitration.

## SHARES ELIGIBLE FOR FUTURE SALES

Upon completion of this offering, ADSs will be outstanding, representing Class A ordinary shares or, approximately % of our outstanding Class A and Class B ordinary shares, assuming the underwriters do not exercise their over-allotment option. All of the ADSs sold in this offering will be freely transferable by persons other than by our “affiliates” without restriction or further registration under the Securities Act. Sales of substantial amounts of the ADSs in the public market could adversely affect prevailing market prices of the ADSs. Prior to this offering, there has been no public market for our ordinary shares or the ADSs. We will apply to list the ADSs on the Nasdaq Global Market, but we cannot assure you that a regular trading market will develop in the ADSs. We do not expect that a trading market will develop for our ordinary shares not represented by the ADSs.

### Lock-up Agreements

We, [our directors and executive officers, our existing shareholders and certain option holders] have agreed, for a period of 180 days after the date of this prospectus, subject to certain exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, our ordinary shares or ADSs or securities that are substantially similar to our ordinary shares or ADSs (including by entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership interests), whether any of these transactions are to be settled by delivery of ADSs, in cash or otherwise. The foregoing restrictions also apply to any ADSs acquired by our directors and executive officers in the offering pursuant to the directed ADS program, if any. These parties collectively own all of our outstanding ordinary shares, without giving effect to this offering.

Other than this offering, we are not aware of any plans by any significant shareholders to dispose of significant numbers of ADSs or ordinary shares. However, one or more existing shareholders or owners of securities convertible or exchangeable into or exercisable for the ADSs or our ordinary shares may dispose of significant numbers of ADSs or ordinary shares in the future. We cannot predict what effect, if any, future sales of ADSs or ordinary shares, or the availability of ADSs or ordinary shares for future sale, will have on the trading price of the ADSs from time to time. Sales of substantial amounts of the ADSs or ordinary shares in the public market, or the perception that these sales could occur, could adversely affect the trading price of the ADSs.

### Rule 144

All of our ordinary shares that will be outstanding upon the completion of this offering, other than those ordinary shares sold in this offering, are “restricted securities” as that term is defined in Rule 144 under the Securities Act and may be sold publicly in the United States only if they are subject to an effective registration statement under the Securities Act or pursuant to an exemption from the registration requirement such as those provided by Rule 144 and Rule 701 promulgated under the Securities Act. In general, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who at the time of a sale is not, and has not been during the three months preceding the sale, an affiliate of ours and has beneficially owned our restricted securities for at least six months will be entitled to sell the restricted securities without registration under the Securities Act, subject only to the availability of current public information about us, and will be entitled to sell restricted securities beneficially owned for at least one year without restriction. Persons who are our affiliates and have beneficially owned our restricted securities for at least six months may sell a number of restricted securities within any three-month period that does not exceed the greater of the following:

- 1% of the then outstanding Class A ordinary shares, in the form of ADSs or otherwise, which immediately after this offering will equal Class A ordinary shares, assuming the underwriters do not exercise their over-allotment option; or

---

[Table of Contents](#)

- the average weekly trading volume of our Class A ordinary shares, in the form of ADSs or otherwise, during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales by our affiliates under Rule 144 are also subject to certain requirements relating to manner of sale, notice and the availability of current public information about us.

**Rule 701**

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases our ordinary shares from us in connection with a compensatory stock plan or other written agreement executed prior to the completion of this offering is eligible to resell those ordinary shares in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

## TAXATION

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in the ADSs or our Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in the ADSs or our Class A ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, China and the United States. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, and to the extent it relates to PRC tax law, it represents the opinion of CM Law Firm, our counsel as to PRC law.

### Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

[Our company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (2011 Revision). In accordance with the provision of Section 6 of The Tax Concessions Law (2011 Revision), the Governor in Cabinet undertakes with our company:

- that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our company or its operations; and
- in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
- on or in respect of the shares, debentures or other obligations of our company; or
- by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

These concessions shall be for a period of 20 years from March 14, 2018.]

### PRC Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside China with “de facto management body” within China is considered a resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in

---

## [Table of Contents](#)

China; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China.

We believe that Futu Holdings Limited is not a PRC resident enterprise for PRC tax purposes. Futu Holdings Limited is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Futu Holdings Limited meets all of the conditions above. Futu Holdings Limited is a company incorporated outside China. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside China. In addition, we are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed a PRC "resident enterprise" by the PRC tax authorities. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body."

If the PRC tax authorities determine that Futu Holdings Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of Futu Holdings Limited would be able to claim the benefits of any tax treaties between their country of tax residence and China in the event that Futu Holdings Limited is treated as a PRC resident enterprise. See "Risk Factors—Risks Related to Doing Business in China—We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income."

### **United States Federal Income Tax Considerations**

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of the ADSs or our ordinary shares by a U.S. Holder (as defined below) that acquires the ADSs in this offering and holds the ADSs or our ordinary shares as "capital assets" (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, Medicare, and alternative minimum tax considerations, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of the ADSs or our ordinary shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;

---

## Table of Contents

- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- individual retirement accounts or other tax-deferred accounts;
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own 10% or more of the ADSs or our ordinary shares (by vote or value);
- persons required to accelerate the recognition of any item of gross income with respect to their ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement; or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or ordinary shares through such entities.

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of the ADSs or our ordinary shares.

### ***General***

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of the ADSs or our ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the ADSs or our ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding the ADSs or our ordinary shares and their partners are urged to consult their tax advisors regarding an investment in the ADSs or our ordinary shares.

---

## [Table of Contents](#)

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of the ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

### ***Passive Foreign Investment Company Considerations***

A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is not entirely clear, we treat our VIE (and its subsidiary) as being owned by us for U.S. federal income tax purposes because we control their management decisions and are entitled to substantially all of the economic benefits associated with them, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the VIE (and its subsidiary) for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIE (and its subsidiary) for U.S. federal income tax purposes, and based upon our current and projected income and assets, including the expected proceeds from this offering, and projections as to the market price of the ADSs immediately following this offering, we do not expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a factual determination made annually that will depend, in part, upon the composition and classification of our income and assets. Because there are uncertainties in the application of the relevant rules, it is possible that the IRS may challenge our classification of certain income and assets as non-passive which may result in our being or becoming a PFIC in the current or subsequent years. Furthermore, fluctuations in the market price of the ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of the ADSs from time to time (which may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our anticipated market capitalization immediately following the close of this offering. Among other matters, if our market capitalization is less than anticipated or subsequently declines, we may be or become a PFIC for the current or future taxable years. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets and the cash raised in this offering. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any year during which a U.S. Holder holds the ADSs or our ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the ADSs or our ordinary shares.

The discussion below under “—Dividends” and “—Sale or Other Disposition” is written on the basis that we will not be or become classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply generally if we are treated as a PFIC are discussed below under “—Passive Foreign Investment Company Rules.”

### ***Dividends***

Any cash distributions paid on the ADSs or our ordinary shares (including the amount of any PRC tax withheld) out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on the ADSs or our ordinary shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. Holders will be subject to tax on any such dividends at the lower capital gain tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) the ADSs or our ordinary shares on which the dividends are paid are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefit of the U.S.-PRC income tax treaty (the “Treaty”), (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the Nasdaq Stock Market will generally be considered to be readily tradable on an established securities market in the United States. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the ADSs or our ordinary shares. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “TAXATION—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, and regardless of whether the ADSs are readily tradable on an established securities market in the United States, would be eligible for the reduced rates of taxation described in the preceding paragraph.

For U.S. foreign tax credit purposes, dividends paid on the ADSs or our ordinary shares generally will be treated as income from foreign sources and generally will constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on the ADSs or our ordinary shares (see “TAXATION—People’s Republic of China Taxation”). Depending on the U.S. Holder’s particular facts and circumstances and subject to a number of complex conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Sale or Other Disposition***

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long term if the ADSs or ordinary shares have been held for more than one year. Non-corporate U.S. Holders (including individuals) generally will be subject to United States federal income tax on long-term capital gain at preferential rates. The deductibility of a capital loss may be subject to limitations. Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we may

---

## [Table of Contents](#)

be eligible for the benefits of the Treaty. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the Treaty may elect to treat such gain as PRC source income. If a U.S. Holder is not eligible for the benefits of the Treaty or fails to make the election to treat any gain as foreign source, then such U.S. Holder may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). Each U.S. Holder is advised to consult its tax advisor regarding the tax consequences if a foreign tax is imposed on a disposition of the ADSs or our ordinary shares, including the availability of the foreign tax credit under its particular circumstances.

### ***Passive Foreign Investment Company Rules***

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds the ADSs or our ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a "pre-PFIC year"), will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each such taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds the ADSs or our ordinary shares and any of our subsidiaries, our VIE or the subsidiary of our VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, our VIE or any of the subsidiary of our VIE.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to the ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of the ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of the ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

---

[Table of Contents](#)

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable United States Treasury regulations. The ADSs, but not our ordinary shares, will be treated as traded on a qualified exchange or other market upon their listing on the Nasdaq Global Select Market. We anticipate that the ADSs should qualify as being regularly traded, but no assurances may be given in this regard.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns the ADSs or our ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of the ADSs or our ordinary shares if we are or become a PFIC.

## UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the ADSs being offered. Under the terms and subject to certain conditions in the underwriting agreement, each underwriter has severally agreed to purchase, and we have agreed to sell to them, severally, the number of ADSs indicated in the following table. Goldman Sachs (Asia) L.L.C., UBS Securities LLC and Credit Suisse Securities (USA) LLC are acting as representatives of the underwriters.

<u>Underwriters</u>	<u>Number of ADSs</u>
Goldman Sachs (Asia) L.L.C.	
UBS Securities LLC	
Credit Suisse Securities (USA) LLC	
Total	

The underwriters are committed to, severally but not jointly, take and pay for all of the ADSs being offered, if any are taken, other than the ADSs covered by the option described below unless and until this option is exercised. [If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.]

The underwriters have an option to purchase up to an additional \_\_\_\_\_ ADSs from us to cover sales by the underwriters of a greater number of ADSs than the total number set forth in the table above. They may exercise that option for 30 days from the date of this prospectus. If any ADSs are purchased pursuant to this option, the underwriters will severally purchase ADSs in approximately the same proportion as set forth in the table above.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to \_\_\_\_\_ additional ADSs.

<u>Paid by Us</u>	<u>No Exercise</u>	<u>Full Exercise</u>
<u>Per ADS</u>	US\$	US\$
Total	US\$	US\$

ADSs sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any ADSs sold by the underwriters to securities dealers may be sold at a discount of up to US\$ \_\_\_\_\_ per ADS from the initial public offering price. After the initial offering of the ADSs, the representatives may change the offering price and the other selling terms. The offering of the ADSs by the underwriters is subject to their receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions.

Some of the underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Any offers or sales in the United States will be conducted by broker-dealers registered with the SEC.

Goldman Sachs (Asia) L.L.C. will offer ADSs in the United States through its SEC-registered broker-dealer affiliate in the United States, Goldman Sachs & Co. LLC. The address of Goldman Sachs (Asia) L.L.C. is 68th Floor, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong. The address of UBS Securities LLC is 1285 Avenue of the Americas, New York, NY 10019, U.S.A. The address of Credit Suisse Securities (USA) LLC is Eleven Madison Avenue, New York, New York 10010, U.S.A.

---

## [Table of Contents](#)

We and our officers, directors and all of our existing shareholders have agreed with the underwriters, subject to certain exceptions, to certain lock-up restrictions in respect of our ordinary shares, the ADSs or securities convertible into or exchangeable for our ordinary shares or the ADSs during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. See “Shares Eligible for Future Sale” for a discussion of certain transfer restrictions.

Prior to the offering, there has been no public market for our ordinary shares or the ADSs. The initial public offering price has been negotiated among us and the representatives. Among the factors considered in determining the initial public offering price of the ADSs, in addition to prevailing market conditions, were our historical performance, estimates of our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to the market valuation of companies in related businesses.

An application [has been made] to list the ADSs on the Nasdaq Global Market under the symbol “FHL.”

In connection with the offering, the underwriters may purchase and sell ADSs in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering, and a short position represents the amount of such sales that have not been covered by subsequent purchases. A “covered short position” is a short position that is not greater than the amount of additional ADSs for which the underwriters’ option described above may be exercised. The underwriters may cover any covered short position by either exercising their option to purchase additional ADSs or purchasing ADSs in the open market. In determining the source of ADSs to cover the covered short position, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase additional ADSs pursuant to the option described above. “Naked” short sales are any short sales that create a short position greater than the amount of additional ADSs for which the option described above may be exercised. The underwriters must cover any such naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for, or purchases of, ADSs made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ADSs sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the ADSs, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the ADSs. As a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. The underwriters are not required to engage in these activities and may end any of these activities at any time. These transactions may be effected on the Nasdaq Global Market, in the over-the-counter market or otherwise.

We estimate that the total expenses of the offering payable by us, excluding underwriting discounts and commissions, will be approximately US\$ . [We have agreed to reimburse the underwriters for certain of their expenses in an amount up to US\$ .]

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

---

## [Table of Contents](#)

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of ADSs offered by them.

A prospectus in electronic format will be made available on the websites maintained by one or more of the underwriters or one or more securities dealers. One or more of the underwriters may distribute prospectuses electronically. The underwriters may agree to allocate a number of ADSs for sale to their online brokerage account holders. ADSs to be sold pursuant to an internet distribution will be allocated on the same basis as other allocations. In addition, ADSs may be sold by the underwriters to securities dealers who resell ADSs to online brokerage account holders. Other than the prospectus in electronic format, the information on the underwriters' websites and any information contained in any other website maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to us and to persons and entities with relationships with us, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to our assets, securities and/or instruments (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with us. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

### **Directed Share Program**

At our request, the underwriters have reserved up to 5% of the ADSs offered by this prospectus (assuming exercise in full by the underwriters of their option to purchase additional ADSs) for sale, at the initial public offering price, to our directors, officers, employees and other individuals associated with us and members of their families. The sales will be made by \_\_\_\_\_ through a directed share program. We do not know if these persons will choose to purchase all or any portion of these reserved ADSs, but any purchases they do make will reduce the number of ADSs available to the general public. Any reserved ADSs that are not so purchased will be offered by the underwriters to the general public on the same terms as the other ADSs offered by this prospectus.

### **Selling Restrictions**

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.

---

## [Table of Contents](#)

### *Australia*

This document has not been lodged with the Australian Securities & Investments Commission and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) You confirm and warrant that you are either:

- a “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act 2001 (Cth) of Australia, or the Corporations Act;
- a “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate to the company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
- a person associated with the company under section 708(12) of the Corporations Act; or
- a “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act;

and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance; and

(b) You warrant and agree that you will not offer any of the ADSs issued to you pursuant to this document for resale in Australia within 12 months of those ADSs being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

### *Canada*

The ADSs may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions, and Ongoing Registrant Obligations. Any resale of the ADSs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

### *Cayman Islands*

This prospectus does not constitute a public offer of the ADSs or our Class A ordinary shares, whether by way of sale or subscription, in the Cayman Islands. The underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any ADSs or our Class A ordinary shares in the Cayman Islands.

***Dubai International Financial Center (“DIFC”)***

This prospectus relates to an exempt offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (“DFSA”). This prospectus is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for this prospectus. The ADSs which are the subject of this offering contemplated by this prospectus may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the ADSs offered should conduct their own due diligence on the ADSs. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

In relation to its use in the DIFC, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the securities may not be offered or sold directly or indirectly to the public in the DIFC.

***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), an offer of ADSs to the public may not be made in that Relevant Member State, except that an offer of ADSs to the public may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of ADSs shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any ADSs or to whom an offer is made will be deemed to have represented, warranted and agreed to and with the underwriters that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of ADSs to the public” in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State.

In the case of any ADSs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the ADSs acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of ADSs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the underwriters has been obtained to each such proposed offer or resale.

---

## [Table of Contents](#)

### ***Hong Kong***

The ADSs may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (“Companies (Winding Up and Miscellaneous Provisions) Ordinance”) or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“Securities and Futures Ordinance”), or (ii) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

### ***Japan***

The securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The securities may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

### ***Korea***

The ADSs may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Korea Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The ADSs have not been registered with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the ADSs may not be resold to Korean residents unless the purchaser of the ADSs complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the ADSs.

### ***Kuwait***

Unless all necessary approvals from the Kuwait Ministry of Commerce and Industry required by Law No. 31/1990 “Regulating the Negotiation of Securities and Establishment of Investment Funds,” its Executive Regulations and the various Ministerial Orders issued pursuant thereto or in connection therewith, have been given in relation to the marketing and sale of the ADSs, these may not be marketed, offered for sale, nor sold in the State of Kuwait. Neither this prospectus (including any related document), nor any of the information contained therein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

### ***Malaysia***

No prospectus or other offering material or document in connection with the offer and sale of the ADSs has been or will be registered with the Securities Commission of Malaysia (“Commission”) for the Commission’s approval pursuant to the Capital Markets and Services Act 2007. Accordingly, this prospectus and any other

---

## [Table of Contents](#)

document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Malaysia other than (i) a closed end fund approved by the Commission; (ii) a holder of a Capital Markets Services Licence; (iii) a person who acquires the ADSs, as principal, if the offer is on terms that the ADSs may only be acquired at a consideration of not less than RM250,000 (or its equivalent in foreign currencies) for each transaction; (iv) an individual whose total net personal assets or total net joint assets with his or her spouse exceeds RM3 million (or its equivalent in foreign currencies), excluding the value of the primary residence of the individual; (v) an individual who has a gross annual income exceeding RM300,000 (or its equivalent in foreign currencies) per annum in the preceding twelve months; (vi) an individual who, jointly with his or her spouse, has a gross annual income of RM400,000 (or its equivalent in foreign currencies), per annum in the preceding twelve months; (vii) a corporation with total net assets exceeding RM10 million (or its equivalent in a foreign currencies) based on the last audited accounts; (viii) a partnership with total net assets exceeding RM10 million (or its equivalent in foreign currencies); (ix) a bank licensee or insurance licensee as defined in the Labuan Financial Services and Securities Act 2010; (x) an Islamic bank licensee or takaful licensee as defined in the Labuan Financial Services and Securities Act 2010; and (xi) any other person as may be specified by the Commission; provided that, in the each of the preceding categories (i) to (xi), the distribution of the ADSs is made by a holder of a Capital Markets Services Licence who carries on the business of dealing in securities. The distribution in Malaysia of this prospectus is subject to Malaysian laws. This prospectus does not constitute and may not be used for the purpose of public offering or an issue, offer for subscription or purchase, invitation to subscribe for or purchase any securities requiring the registration of a prospectus with the Commission under the Capital Markets and Services Act 2007.

### ***People's Republic of China***

This prospectus may not be circulated or distributed in the PRC and the ADSs may not be offered or sold, and will not offer or sell to any person for re-offering or resale directly or indirectly to any resident of the PRC except pursuant to applicable laws, rules and regulations of the PRC. For the purpose of this paragraph only, the PRC does not include Taiwan and the special administrative regions of Hong Kong and Macau.

### ***Qatar***

In the State of Qatar, the offer contained herein is made on an exclusive basis to the specifically intended recipient thereof, upon that person's request and initiative, for personal use only and shall in no way be construed as a general offer for the sale of securities to the public or an attempt to do business as a bank, an investment company or otherwise in the State of Qatar. This prospectus and the underlying securities have not been approved or licensed by the Qatar Central Bank or the Qatar Financial Centre Regulatory Authority or any other regulator in the State of Qatar. The information contained in this prospectus shall only be shared with any third parties in Qatar on a need to know basis for the purpose of evaluating the contained offer. Any distribution of this prospectus by the recipient to third parties in Qatar beyond the terms hereof is not permitted and shall be at the liability of such recipient.

### ***Saudi Arabia***

This prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this prospectus you should consult an authorized financial adviser.

---

[Table of Contents](#)

***Singapore***

This prospectus has not been registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this prospectus and any other documents or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, or (ii) to a relevant person pursuant to Section 275(1), or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the ADSs are subscribed or purchased under section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the ADSs pursuant to an offer made under section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

**Notification under Section 309B(1)(c) of the SFA:** We have determined that the ADSs shall be (A) prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and (B) Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

***Switzerland***

The ADSs will not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this prospectus nor any other offering or marketing material relating to our company or the ADSs have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of the ADSs will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of the ADSs has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the "CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the ADSs.

---

[Table of Contents](#)

***Taiwan***

The ADSs have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the ADSs in Taiwan.

***United Arab Emirates***

The ADSs have not been offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except: (1) in compliance with all applicable laws and regulations of the United Arab Emirates; and (2) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates. The information contained in this prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

***United Kingdom***

In the United Kingdom, this prospectus is only addressed to and directed as qualified investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order); or (ii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any investment or investment activity to which this prospectus relates is available only to relevant persons and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

**EXPENSES RELATED TO THIS OFFERING**

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that we expect to incur in connection with this offering. With the exception of the SEC registration fee, the FINRA filing fee, and the Nasdaq application and listing fee, all amounts are estimates.

SEC Registration Fee	US\$
FINRA Filing Fee	
Nasdaq Application and Listing Fee	
Printing and Engraving Expenses	
Legal Fees and Expenses	
Accounting Fees and Expenses	
Miscellaneous	
<b>Total</b>	<b><u>US\$</u></b>

**LEGAL MATTERS**

We are being represented by Skadden, Arps, Slate, Meagher & Flom LLP with respect to certain legal matters as to United States federal securities and New York State law. The underwriters are being represented by Latham & Watkins LLP with respect to certain legal matters as to United States federal securities and New York State law. The validity of the Class A ordinary shares represented by the ADSs offered in this offering will be passed upon for us by Maples and Calder (Hong Kong) LLP. Certain legal matters as to Hong Kong law will be passed upon for us by Clifford Chance. Certain legal matters as to PRC law will be passed upon for us by CM Law Firm and for the underwriters by Han Kun Law Offices. Skadden, Arps, Slate, Meagher & Flom LLP may rely upon Maples and Calder (Hong Kong) LLP with respect to matters governed by Cayman Islands law and CM Law Firm with respect to matters governed by PRC law. Latham & Watkins LLP may rely upon Han Kun Law Offices with respect to matters governed by PRC law.

**EXPERTS**

The consolidated financial statements of Futu Holdings Limited as of December 31, 2016 and 2017, and for each of the two years in the period ended December 31, 2017 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The registered business address of PricewaterhouseCoopers Zhong Tian LLP is 6/F DBS Bank Tower, 1318, Lu Jia Zui Ring Road, Pudong New Area, Shanghai, the People's Republic of China.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement, including relevant exhibits, with the SEC on Form F-1 under the Securities Act with respect to the underlying Class A ordinary shares represented by the ADSs to be sold in this offering. We have also filed a related registration statement on Form F-6 with the SEC to register the ADSs. This prospectus, which constitutes a part of the registration statement on Form F-1, does not contain all of the information contained in the registration statement. You should read our registration statements and their exhibits and schedules for further information with respect to us and the ADSs.

Immediately upon the effectiveness of the registration statement on Form F-1 of which this prospectus forms a part, we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-732-0330 or visit the SEC website for further information on the operation of the public reference rooms.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, if so request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

**FUTU HOLDINGS LIMITED**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Contents</u>	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<b>Consolidated Financial Statements:</b>	
<a href="#">Consolidated Balance Sheets as of December 31, 2016 and 2017</a>	F-3
<a href="#">Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2016 and 2017</a>	F-6
<a href="#">Consolidated Statements of Changes in Shareholders' Deficit for the Years Ended December 31, 2016 and 2017</a>	F-7
<a href="#">Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2017</a>	F-8
<a href="#">Notes to Consolidated Financial Statements</a>	F-10
<b>INDEX TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>	
<a href="#">Unaudited Interim Condensed Consolidated Balance Sheets as of December 31, 2017 and September 30, 2018</a>	F-59
<a href="#">Unaudited Interim Condensed Consolidated Statements of Comprehensive (Loss)/Income for the Nine Months Ended September 30, 2017 and 2018</a>	F-62
<a href="#">Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Deficit for the Nine Months Ended September 30, 2017 and 2018</a>	F-63
<a href="#">Unaudited Interim Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2018</a>	F-64
<a href="#">Notes to Unaudited Interim Condensed Consolidated Financial Statements</a>	F-66

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Futu Holdings Limited

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Futu Holdings Limited and its subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive loss, of changes in shareholders’ deficit and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Zhong Tian LLP  
Shenzhen, the People’s Republic of China  
October 19, 2018

We have served as the Company’s auditor since 2018.

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except for share and per share data)

	Note	As of December 31,			Pro Forma December 31, (Unaudited) (Note 28)	
		2016	2017	2017	2017	2017
		HK\$	HK\$	US\$	HK\$	US\$
<b>ASSETS</b>						
Cash and cash equivalents		179,016	375,263	47,951	375,263	47,951
Cash held on behalf of clients		3,345,172	7,176,579	917,029	7,176,579	917,029
Available-for-sale financial securities		2,236	—	—	—	—
Amounts due from related parties	26(b)	1,006	6,541	836	6,541	836
Loans and advances	4	126,163	2,907,967	371,582	2,907,967	371,582
Receivables:						
Clients		792,480	218,960	27,979	218,960	27,979
Brokers		9,918	106,078	13,555	106,078	13,555
Clearing organization		9,614	55,892	7,142	55,892	7,142
Interest		1,070	7,041	900	7,041	900
Prepaid assets		4,932	3,646	466	3,646	466
Other assets	7	45,876	65,918	8,422	65,918	8,422
<b>Total assets</b>		<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>
<b>LIABILITIES</b>						
Amounts due to related parties	26(d)	6,479	14,687	1,877	14,687	1,877
Payables:						
Clients		4,107,782	7,340,823	938,016	7,340,823	938,016
Brokers		31,446	929,692	118,797	929,692	118,797
Clearing organization		10,441	82,878	10,590	82,878	10,590
Interest		2,481	2,066	264	2,066	264
Short-term borrowings	8	161,179	1,542,448	197,095	1,542,448	197,095
Convertible notes	9	32,030	—	—	—	—
Accrued expenses and other liabilities	10	26,689	60,717	7,758	60,717	7,758
<b>Total liabilities</b>		<b>4,378,527</b>	<b>9,973,311</b>	<b>1,274,397</b>	<b>9,973,311</b>	<b>1,274,397</b>

**Commitments and contingencies**  
(Note 25)

The accompanying notes are an integral part of these consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS (Continued)**  
(In thousands, except for share and per share data)

	Note	As of December 31,			Pro Forma December 31, (Unaudited)	
		2016	2017	2017	2017	2017
		HK\$	HK\$	US\$	HK\$	US\$
<b>MEZZANINE EQUITY</b>	12					
Series A convertible redeemable preferred shares (US\$0.00001 of par value per share; 125,000,000 and 125,000,000 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively; no shares issued and outstanding, pro forma)		61,506	64,780	8,278	—	—
Series A-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; 23,437,500 and 23,437,500 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively; no shares issued and outstanding, pro forma)		13,180	13,881	1,774	—	—
Series B convertible redeemable preferred shares (US\$0.00001 of par value per share; 88,423,500 and 88,423,500 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively; no shares issued and outstanding, pro forma)		254,489	268,520	34,312	—	—
Series C convertible redeemable preferred shares (US\$0.00001 of par value per share; nil share authorized, issued and outstanding as of December 31, 2016; and 128,844,812 shares authorized, issued and outstanding as of December 31, 2017; no shares issued and outstanding, pro forma)		—	734,872	93,903	—	—
Series C-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; nil share authorized, issued and outstanding as of December 31, 2016; and 12,225,282 shares authorized, issued and outstanding as of December 31, 2017; no shares issued and outstanding, pro forma)		—	101,422	12,959	—	—
<b>Total mezzanine equity</b>		<b>329,175</b>	<b>1,183,475</b>	<b>151,226</b>	<b>—</b>	<b>—</b>

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS (Continued)**  
**(In thousands, except for share and per share data)**

	Note	As of December 31,			Pro Forma December 31, (Unaudited)	
		2016	2017	2017	2017	2017
		HK\$	HK\$	US\$	HK\$	US\$
<b>SHAREHOLDERS' (DEFICIT)/EQUITY</b>						
Ordinary shares (US\$0.00001 par value; 4,763,139,000 and 4,622,068,906 shares authorized as of December 31, 2016 and 2017, respectively; 403,750,000 shares issued and outstanding as of December 31, 2016 and 2017, respectively; 727,185,523 shares issued and outstanding on a pro forma basis as of December 31, 2017)	11	31	31	4	61	8
Additional paid-in capital		2,500	—	—	1,183,445	151,222
Accumulated other comprehensive loss		(5,419)	(2,053)	(262)	(2,053)	(262)
Accumulated deficit		(187,331)	(230,879)	(29,503)	(230,879)	(29,503)
<b>Total shareholders' (deficit)/equity</b>		<b>(190,219)</b>	<b>(232,901)</b>	<b>(29,761)</b>	<b>950,574</b>	<b>121,465</b>
<b>Total liabilities, mezzanine equity and shareholders' (deficit)/equity</b>		<b>4,517,483</b>	<b>10,923,885</b>	<b>1,395,862</b>	<b>10,923,885</b>	<b>1,395,862</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(In thousands, except for share and per share data)

	Note	Year ended December 31,		
		2016	2017	2017
		HK\$	HK\$	US\$
<b>Revenues</b>				
Brokerage commission and handling charge income	16	74,498	184,918	23,629
Interest income	17	5,795	105,872	13,528
Other income	18	6,722	20,873	2,667
<b>Total revenues</b>		<b>87,015</b>	<b>311,663</b>	<b>39,824</b>
<b>Costs</b>				
Brokerage commission and handling charge expenses	19	(18,730)	(36,777)	(4,699)
Interest expenses	20	(3,459)	(19,879)	(2,540)
Processing and servicing costs	21	(22,880)	(52,446)	(6,702)
<b>Total costs</b>		<b>(45,069)</b>	<b>(109,102)</b>	<b>(13,941)</b>
<b>Total gross profit</b>		<b>41,946</b>	<b>202,561</b>	<b>25,883</b>
<b>Operating expenses</b>				
Research and development expenses		(61,624)	(95,526)	(12,206)
Selling and marketing expenses		(59,198)	(41,446)	(5,296)
General and administrative expenses		(31,786)	(57,293)	(7,321)
<b>Total operating expenses</b>		<b>(152,608)</b>	<b>(194,265)</b>	<b>(24,823)</b>
Others, net		(1,085)	(4,918)	(628)
<b>(Loss)/income before income tax benefit/(expense)</b>		<b>(111,747)</b>	<b>3,378</b>	<b>432</b>
Income tax benefit/(expense)	22	13,276	(11,480)	(1,467)
<b>Net loss</b>		<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>
Preferred shares redemption value accretion		(17,929)	(47,715)	(6,097)
<b>Net loss attributable to ordinary shareholder of the Company</b>		<b>(116,400)</b>	<b>(55,817)</b>	<b>(7,132)</b>
<b>Net loss</b>		<b>(98,471)</b>	<b>(8,102)</b>	<b>(1,035)</b>
<b>Other comprehensive (loss)/income, net of tax</b>				
Foreign currency translation adjustment		(4,142)	3,366	430
<b>Total comprehensive loss</b>		<b>(102,613)</b>	<b>(4,736)</b>	<b>(605)</b>
<b>Net loss per share attributable to ordinary shareholder of the Company</b>				
	14			
Basic		(0.29)	(0.14)	(0.02)
Diluted		(0.29)	(0.14)	(0.02)
<b>Weighted average number of ordinary shares used in computing net loss per share</b>				
	14			
Basic		403,750,000	403,750,000	403,750,000
Diluted		403,750,000	403,750,000	403,750,000

The accompanying notes are an integral part of these consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**

(In thousands, except for share and per share data)

	Note	Share capital		Additional paid in capital	Accumulated other comprehensive (loss)/income	Accumulated deficit	Total equity
		Number of Shares	Amount				
<b>As of January 1, 2016</b>		<b>403,750,000</b>	<b>31</b>	<b>11,274</b>	<b>(1,277)</b>	<b>(88,860)</b>	<b>(78,832)</b>
Loss for the year		—	—	—	—	(98,471)	(98,471)
Share-based compensation	13	—	—	9,155	—	—	9,155
Preferred shares redemption value accretion		—	—	(17,929)	—	—	(17,929)
Foreign currency translation adjustment, net of tax		—	—	—	(4,142)	—	(4,142)
<b>Balance at December 31, 2016</b>		<b>403,750,000</b>	<b>31</b>	<b>2,500</b>	<b>(5,419)</b>	<b>(187,331)</b>	<b>(190,219)</b>
<b>As of January 1, 2017</b>		<b>403,750,000</b>	<b>31</b>	<b>2,500</b>	<b>(5,419)</b>	<b>(187,331)</b>	<b>(190,219)</b>
Loss for the year		—	—	—	—	(8,102)	(8,102)
Share-based compensation	13	—	—	9,769	—	—	9,769
Preferred shares redemption value accretion		—	—	(12,269)	—	(35,446)	(47,715)
Foreign currency translation adjustment, net of tax		—	—	—	3,366	—	3,366
<b>Balance at December 31, 2017</b>		<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>(2,053)</b>	<b>(230,879)</b>	<b>(232,901)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Note	Year Ended December 31,		
		2016 HK\$	2017 HK\$	2017 US\$
<b>Cash flows from operating activities</b>				
Net loss		(98,471)	(8,102)	(1,035)
Adjustments for:				
Depreciation and amortization		3,576	4,300	549
Foreign exchange gain		(77)	(21,625)	(2,763)
Share-based compensation	13	9,155	9,769	1,248
Interest income from available-for-sale financial securities		(39)	(12)	(2)
<b>Changes in operating assets:</b>				
Net increase in amounts due from related parties		(990)	(5,535)	(707)
Net increase in loans and advances		(126,163)	(2,781,804)	(355,461)
Net (increase)/decrease in accounts receivable from clients and brokers		(566,658)	477,360	60,997
Net increase in accounts receivable from clearing organization		(9,601)	(46,278)	(5,913)
Net increase in interest receivable		(886)	(5,971)	(763)
Net (increase)/decrease in prepaid assets		(3,693)	1,286	164
Net increase in other assets		(17,033)	(13,965)	(1,784)
<b>Changes in operating liabilities:</b>				
Net increase in amounts due to related parties		4,579	8,208	1,049
Net increase in accounts payable to clients and brokers		2,201,564	4,131,287	527,899
Net (decrease)/increase in accounts payable to clearing organization		(13,532)	72,437	9,256
Net increase in payroll and welfare payable		6,552	22,838	2,918
Net increase/(decrease) in interest payable		2,047	(415)	(53)
Net increase in other liabilities		7,362	11,550	1,476
<b>Net cash generated from operating activities</b>		<b><u>1,397,692</u></b>	<b><u>1,855,328</u></b>	<b><u>237,075</u></b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property and equipment and intangible assets		5	20	3
Purchase of property and equipment and intangible assets		(4,038)	(7,413)	(948)
Net (purchase)/proceeds from disposal of available-for-sale financial securities		(2,236)	2,236	286
Interest received from available-for-sale financial securities		39	12	2
<b>Net cash used in investing activities</b>		<b><u>(6,230)</u></b>	<b><u>(5,145)</u></b>	<b><u>(657)</u></b>

**FUTU HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(In thousands)

	Note	Year Ended December 31,		
		2016	2017	2017
		HKS	HKS	US\$
<b>Cash flows from financing activities</b>				
Proceeds from issuance of Series C preferred shares and Series C-1 preferred shares		—	620,625	79,304
Proceeds from short-term borrowings		147,594	2,518,185	321,776
Repayment of short-term borrowings		—	(982,964)	(125,604)
<b>Net cash generated from financing activities</b>		<b>147,594</b>	<b>2,155,846</b>	<b>275,476</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>		<b>77</b>	<b>21,625</b>	<b>2,763</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>		<b>1,539,133</b>	<b>4,027,654</b>	<b>514,657</b>
Cash, cash equivalents and restricted cash at beginning of the year		1,985,055	3,524,188	450,323
<b>Cash, cash equivalents and restricted cash at end of the year</b>		<b>3,524,188</b>	<b>7,551,842</b>	<b>964,980</b>
<b>Cash, cash equivalents and restricted cash</b>				
Cash and cash equivalents		179,016	375,263	47,951
Cash held on behalf of clients		3,345,172	7,176,579	917,029
<b>Cash, cash equivalents and restricted cash at end of the year</b>		<b>3,524,188</b>	<b>7,551,842</b>	<b>964,980</b>
<b>Non-cash financing activities</b>				
Accretion to preferred shares redemption value		17,929	47,715	6,097
Issuance of Series C preferred shares from conversion of the convertible notes		—	32,345	4,133
Issuance of Series C preferred shares from repayment of short-term borrowings		—	153,896	19,665
<b>Supplemental Disclosure</b>				
Interest paid		(1,412)	(20,294)	(2,593)
Income tax paid		(358)	(8,693)	(1,111)

The accompanying notes are an integral part of these consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Futu Holdings Limited (the “Company”) is an investment holding company incorporated in the Cayman Islands with limited liability and conducts its business mainly through its subsidiaries, variable interest entity (“VIE”) and subsidiary of the VIE (collectively referred to as the “Group”). The Group principally engages in online financial services and provides financial transaction services including securities brokerage and margin financing based on independently developed software and websites like “Futu NiuNiu” mobile app. The Group also provides financial information and online community services, etc.

As of December 31, 2017, the Company’s principal subsidiaries, consolidated VIE and subsidiary of VIE are as follows:

Subsidiaries	Date of Incorporation/ Establishment	Place of Incorporation/ Establishment	Percentage of Direct or Indirect Economic Interest	Principal Activities
Futu Securities International (Hong Kong) Limited (“Futu Securities” or the “Operating Company”)	April 17, 2012	Hong Kong	100%	Financial services
Futu Securities (Hong Kong) Limited	May 2, 2014	Hong Kong	100%	Investment holding
Futu Network Technology Limited	May 17, 2015	Hong Kong	100%	Research and development and technology services
Futu Network Technology (Shenzhen) Co., Ltd.	October 14, 2015	Shenzhen, PRC	100%	Research and development and technology services
Shen Si Network Technology (Beijing) Co. Ltd (“Shen Si”)	September 15, 2014	Beijing, PRC	100%	No substantial business
<b>VIE</b>				
Shenzhen Futu Network Technology Co., Ltd.(1) (“Shenzhen Futu”)	December 18, 2007	Shenzhen, PRC	100%	Research and development and technology services
<b>Subsidiary of the VIE</b>				
Beijing Futu Network Technology Co., Ltd.	April 4, 2014	Beijing, PRC	100%	No substantial business

Note:

(1) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of the Company and hold 81% and 7.5% equity interests in Shenzhen Futu, respectively. Mr. Li is the founder, chairman and chief executive officer of the Company, and Ms. Li is Mr. Li’s spouse.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES

*Basis of presentation*

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

*Basis of Consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIE and subsidiary of the VIE for which the Company or its subsidiary is the primary beneficiary.

A Subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has the power to direct the activities that most significantly impact the entity’s economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the VIE and subsidiary of the VIE have been eliminated upon consolidation.

*VIE Companies*

1) Contractual Agreements with VIE

The following is a summary of the contractual agreements (collectively, “Contractual Agreements”) between the Company’s PRC subsidiary, Shen Si, and the VIE, Shenzhen Futu. Through the Contractual Agreements, the VIE is effectively controlled by the Company.

**Shareholders’ Voting Rights Proxy Agreements.** Pursuant to the Shareholders’ Voting Rights Proxy Agreements, each shareholder of Shenzhen Futu irrevocably authorized Shen Si or any person(s) designated by Shen Si to exercise such shareholder’s rights in Shenzhen Futu, including without limitation, the power to participate in and vote at shareholder’s meetings, the power to nominate and appoint the directors, senior management, and other shareholders’ voting right permitted by the Articles of Association of Shenzhen Futu. The shareholders’ voting rights proxy agreement remains irrevocable and continuously valid from the date of execution until the expiration of the business term of Shen Si and can be renewed upon request by Shen Si.

**Business Operation Agreement.** Pursuant to the Business Operation Agreement, Shenzhen Futu and its shareholders undertake that without Shen Si’s prior written consent, Shenzhen Futu shall not enter into any transactions that may have a material effect on Shenzhen Futu’s assets, business, personnel, obligations, rights or business operations. Shenzhen Futu and its shareholders shall elect directors nominated by Shen Si and such directors shall nominate officers designated by Shen Si. The business operation agreement will remain effective until the end of Shen Si’s business term, which will be extended if Shen Si’s business term is extended or as required by Shen Si.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*VIE Companies (Continued)*

1) Contractual Agreements with VIE (Continued)

**Equity Interest Pledge Agreements.** Pursuant to the Equity Interest Pledge Agreements, each shareholder of Shenzhen Futu agrees that, during the term of the Equity Interest Pledge Agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Shen Si. The Equity Interest Pledge Agreements remain effective until the latter of the full payment of all secured debt under the equity interest pledge agreements and Shenzhen Futu and its shareholders discharge all their obligations under the contractual arrangements.

**Exclusive Technology Consulting and Services Agreement.** Under the Exclusive Technology and Consulting and Services Agreement between Shen Si and Shenzhen Futu, Shen Si has the exclusive right to provide Shenzhen Futu with technology consulting and services related to, among other things, technology research and development, technology application and implementation, maintenance of software and hardware. Without Shen Si's written consent, Shenzhen Futu shall not accept any technology consulting and services covered by this agreement from any third party. Shenzhen Futu agrees to pay a service fee at an amount equivalent to all of its net profit to Shen Si. Unless otherwise terminated in accordance with the terms of this agreement or otherwise agreed by Shen Si, this agreement will remain effective until the expiration of Shen Si's business term, and will be renewed if Shen Si's business term is extended.

**Exclusive Option Agreement.** Pursuant to the Exclusive Option Agreement, each shareholder of Shenzhen Futu has irrevocably granted Shen Si an exclusive option, to the extent permitted by PRC laws, to purchase, or have its designated person or persons to purchase, at its discretion, all or part of the shareholder's equity interests in Shenzhen Futu. Unless PRC laws and/or regulations require valuation of the equity interests, the purchase price shall be RMB1.00 or the lowest price permitted by the applicable PRC laws, whichever is higher. Each shareholder of Shenzhen Futu undertakes that, without the prior written consent of Shen Si, he or she will not, among other things, (i) create any pledge or encumbrance on his or her equity interests in Shenzhen Futu, (ii) transfer or otherwise dispose of his or her equity interests in Shenzhen Futu, (iii) change Shenzhen Futu's registered capital, (iv) amend Shenzhen Futu's articles of association, (v) liquidate or dissolve Shenzhen Futu, or (vi) distribute dividends to the shareholders of Shenzhen Futu. In addition, Shenzhen Futu undertakes that, without the prior written consent of Shen Si, it will not, among other things, dispose of Shenzhen Futu's material assets, provide any loans to any third parties, enter into any material contract with a value of more than RMB500,000, or create any pledge or encumbrance on any of its assets, or transfer or otherwise dispose of its material assets. Unless otherwise terminated by Shen Si, this agreement will remain effective until the expiration of Shen Si's business term, and will be renewed if Shen Si's business term is extended.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*VIE Companies (Continued)*

2) Risks in relation to the VIE structure

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the VIE and its subsidiary taken as a whole, which were included in the Group's consolidated financial statements with intercompany balances and transactions eliminated:

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<u>(HK\$ in thousands)</u>	
Total assets	15,489	24,656
Total liabilities	71,192	65,185
	<u>Year ended</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<u>(HK\$ in thousands)</u>	
Total operating revenue	8,333	50,020
Net (loss)/income	(13,209)	18,458
	<u>Year ended</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2017</u>
	<u>(HK\$ in thousands)</u>	
Net cash used in operating activities	(35)	(4,613)
Net cash used in investing activities	(847)	—
Net decrease in cash and cash equivalents	(882)	(4,613)
Cash and cash equivalents at beginning of the year	5,581	4,699
Cash and cash equivalents at end of the year	<u>4,699</u>	<u>86</u>

Under the Contractual Agreements with the VIE, the Company has the power to direct activities of the VIE and VIE's subsidiaries, and can have assets transferred out of the VIE and VIE's subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIE and there is no asset of the VIE that can only be used to settle obligations of the VIE and VIE's subsidiaries, except for registered capital of the VIE and their subsidiaries amounting to RMB10 million as of December 31, 2016 and 2017, respectively. Since the VIE are incorporated as limited liability companies under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Company. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIE. However, as the Company is conducting certain businesses through its VIE and VIE's subsidiary, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

In the opinion of the Company's management, the contractual arrangements among its subsidiary, the VIE and its respective Nominee Shareholders are in compliance with current PRC laws and are legally binding and enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIE and VIE's subsidiary in the consolidated financial statements.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*VIE Companies (Continued)*

2) Risks in relation to the VIE structure (Continued)

In January 2015, the Ministry of Commerce (“MOFCOM”), released for public comment a proposed PRC law, the Draft Foreign Investment Enterprises (“FIE”) Law, that appears to include VIE within the scope of entities that could be considered to be FIEs, that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of “actual control” for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of “actual control”. If the Draft FIE Law is passed by the People’s Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to include the Group’s contractual arrangements with its VIE, and as a result, the Group’s VIE could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of FIEs where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIE, that operates in restricted or prohibited industries and is not controlled by entities organized under PRC law or individuals who are PRC citizens. If the restrictions and prohibitions on FIEs included in the Draft FIE Law are enacted and enforced in their current form, the Group’s ability to use the contractual arrangements with its VIE and the Group’s ability to conduct business through the VIE could be severely limited.

The Company’s ability to control the VIE also depends on the power of attorney Shen Si has to vote on all matters requiring shareholders’ approvals in the VIE. As noted above, the Company believes these power of attorney are legally binding and enforceable but may not be as effective as direct equity ownership. In addition, if the Group’s corporate structure or the contractual arrangements with the VIE were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the Group’s business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group’s right to collect revenues;
- block the Group’s websites;
- require the Group to restructure its operations, re-apply for the necessary licenses or relocate the Group’s businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group’s business.

The imposition of any of these restrictions or actions may result in a material adverse effect on the Group’s ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIE or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIE. In the opinion of management, the likelihood of losing the benefits in respect of the Group’s current ownership structure or the contractual arrangements with its VIE is remote.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenue, cost and expenses during the reported period in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements mainly include, but are not limited to, assessment of whether the Group acts as a principal or an agent in different revenue streams, the determination of estimated selling prices of multiple element revenue contracts, the estimation of selling and marketing expense from incentive program, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, assessment for impairment of loans and advances, provision of income tax and valuation allowance for deferred tax asset as well as determination of the fair value of preferred shares and ordinary shares. Actual results could differ from those estimates.

*Comprehensive Income and Foreign Currency Translation*

The Group's operating results are reported in the consolidated statements of comprehensive loss pursuant to FASB ASC Topic 220, "Comprehensive Income". Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). The Group's OCI is comprised of gains and losses resulting from translating foreign currency financial statements of entities, of which functional currency is other than Hong Kong dollar which is the presentational currency of the Group, net of related income taxes, where applicable. Such subsidiaries' assets and liabilities are translated into Hong Kong dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency to the Hong Kong dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the consolidated balance sheets.

*Convenience Translation*

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive loss and consolidated statements of cash flows from HK\$ into US\$ as of and for the year ended December 31, 2017 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=HK\$7.8259, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on September 28, 2018. No representation is made that the HK\$ amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2017, or at any other rate.

*Available-for-Sale Financial Securities*

Available-for-sale financial securities include debt securities and are measured at fair value. Debt securities in this category are wealth management product with expected return rate of benchmark interest rate for one-year Renminbi deposits plus 1.6%, principal amounting to HK\$2,236 thousand and nil as of December 31, 2016 and 2017 respectively. The wealth management product is issued by China Merchant Bank Co., Ltd. which can be redeemed at designated date set by the product manual, and the Group had redeemed all its shares of the product in 2017.

The Group didn't identify any sign for available-for-sale debt securities to impair.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Loans and advances***

Loans and advances include margin loans and Initial Public Offering (“IPO”) loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for doubtful accounts.

The Operating Company monitors margin levels of margin loans and requires clients to deposit additional collateral to meet minimum collateral requirements if the fair value of the collateral reduced. Clients with margin loans have agreed to allow the Operating Company to pledge collateralized securities. Securities owned by clients, including those that collateralize margin loans or other similar transactions, are not reported in the consolidated balance sheets. The impairment provision is recognized when the fair value of collaterals fall under the carrying amount of margin loans. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

IPO loans for subscription of new shares are normally settled within one week from the drawdown date. Once IPO stocks are allotted, the Operating Company requires clients to repay the IPO loans. Force liquidation action would be taken if the clients fail to settle their shortfall after the IPO allotment result is announced. There were no outstanding IPO loan balances as of 31 December 2016 and 31 December 2017. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

Other advances consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

Loans and advances are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortized cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the surplus or deficit using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

***Trading Receivables from and Payables to Clients***

Trading receivables from and payables to clients include amounts due on brokerage transactions on a trade-date basis.

***Receivables from and Payables to Brokers and Clearing Organization***

Receivables from and payables to brokers and clearing organization include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities not delivered by the Operating Company to the purchaser by the settlement date and cash deposits, and amounts payable for securities not received by the Operating Company from a seller by the settlement date.

Clearing settlement fund deposited in the clearing organizations for the clearing purpose is recognized in receivables from clearing organization.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Receivables from and Payables to Brokers and Clearing Organization (Continued)*

The Operating Company borrowed margin loan from executing brokers in the United States, with the amount of HK\$3,034 thousand and HK\$920,206 thousand as of December 31, 2016 and 2017, respectively, and with the benchmark interest rate plus premium differentiated depending on the trading volume, and immediately lent to margin clients. Margin loan borrowed is recognized in the payables to brokers.

*Interest Receivable and Payable*

Interest receivable is calculated based on the contractual interest rate of bank deposit, loans and advances on an accrual basis, and is recorded as interest income as earned.

Interest payable is calculated based on the contractual interest rates of short-term borrowings on an accrual basis.

*Securities Borrowing and Lending Transactions*

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received plus accrued interest. Securities borrowing transactions require the Operating Company to deposit cash with the lender whereas securities loaned result in the Operating Company receiving collateral in the form of cash from clients, with both requiring cash in an amount generally in excess of certain percentage of the market value of the equity securities, depending on the quality of the equity securities. Securities lending transactions have overnight or continuous remaining contractual maturities.

Securities lending transactions expose the Operating Company to counterparty credit risk and market risk. To manage the counterparty risk, the Operating Company maintains internal risk management policies, holds regular management meetings for approving counterparties, reviews and analyzes the adequacy of pledged cash collateral of each counterparty, and monitors its positions with each counterparty on an ongoing basis. The Operating Company monitors the market value of the securities borrowed and loaned using collateral arrangements that require additional cash collateral to be obtained from counterparties based on changes in market value to maintain specified collateral levels. During the track record period, the securities borrowed from the lender would be immediately lent to clients. Since the length of time that the Operating Company would hold the securities is minimal, the market risk is insignificant.

*Revenue Recognition*

1) Brokerage commission and handling charge income

Brokerage commission income earned for executing and/or clearing transactions are accrued on a trade-date basis.

Handling charge income arise from the services such as settlement services, subscription and dividend collection handling services, etc, are accrued on a trade-date basis.

2) Interest Income

The Group earns interest income primarily in connection with its margin financing and securities lending services, IPO financing and deposits with banks, which are recorded on an accrual basis and are included in interest income in the consolidated statements of comprehensive loss. Interest income is recognized as it accrues using the effective interest method.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Revenue Recognition (Continued)***

3) Other income

Other income consists of enterprise public relations service charge income provided to enterprise clients, underwriting income, IPO subscription service charge income, currency exchange service income from clients, income from market data service, and client referral income from brokers, etc. Other income is recognized when the related services are rendered.

Enterprise public relations service charge income is charged to institution users by providing platform to post their detailed stock information and latest news in *Futu NiuNiu* app, as well as providing a lively, interactive community among their potential investors to exchange investment views, share trading experience and socialize with each other. Unearned enterprise public relations service income of which the Group had received the consideration is recorded as contract liabilities (deferred revenue).

IPO subscription service charge income is derived from provision of new share subscription services in relation to IPOs in the Hong Kong capital market.

Market information and data income are the amounts charged to *Futu NiuNiu* app users for market data service.

Client referral income from brokers is derived from referring clients to China A-share licensed brokers by embedding on the Group's website or online platform a link which can lead clients to the account opening interface of these brokers.

***Foreign Currency Gains and Losses***

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign currency gain or loss resulting from the settlement of such transactions and from remeasurement at period-end is recognized in "Others, net" in the consolidated statements of comprehensive loss.

***Incentives***

The Group offers a self-managed client loyalty program points, which can be used in mobile app and website to redeem a variety of concessions or service, such as commission-deduction coupon, Level 2 A shares securities market data card and slot machine lottery. Clients have a variety of ways to obtain the points. The major accounting policy for the points program is described as follows:

1) Sales contracts related scenarios

The sales contracts related scenarios include client entering into the first Hong Kong brokerage transaction, first US brokerage transaction, IPO stock brokerage transactions, and currency exchange services. The Group concludes the points offered linked to the purchase transaction of these scenarios is a material right and accordingly a separate performance obligation according to ASC 606, and should be taken into consideration

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Incentives (Continued)***

1) Sales contracts related scenarios (Continued)

when allocating the transaction price of the sales. The Group determines the value of each point based on fair value of the concessions and services that can be redeemed with points. The Group also estimates the probability of the points redemption when performing the allocation. Since the historical information does not yet exist for the Group to determine any potential points forfeitures and the fact that most services can be redeemed without requiring a significant amount of points comparing with the amount of points provided to users, the Group believes it is reasonable to assume all points will be redeemed and no forfeiture is estimated currently. The Group will apply and update the estimated redeem rate and the estimated value of each point at each reporting period. The amount allocated to the points as separate performance obligation is recorded as contract liabilities (deferred revenue) and revenue should be recognized when future concessions or services are transferred.

For the years ended December 31, 2016 and 2017, the revenue portion allocated to the points as separate performance obligation were HK\$1,180 thousand and HK\$2,042 thousand, respectively, which is recorded as contract liabilities (deferred revenue). For the period ended December 31, 2016 and 2017, the total points recorded as a reduction of revenue were HK\$32 thousand and HK\$330 thousand, respectively. As of December 31, 2016 and 2017, contract liabilities recorded related to unredeemed points were HK\$1,147 thousand and HK\$2,454 thousand, respectively.

2) Other scenarios

Clients or the users of the mobile application can also obtain points through other ways such as log-ins to the mobile application, opening a trade account and inviting friends, etc. The Group believes these points are to encourage user engagement and generate market awareness. As a result, the Group accounts for such points as selling and marketing expenses with a corresponding liability recorded under accrued expenses and other liabilities of its consolidated balance sheets upon the points offering. The Group estimates liabilities under the client loyalty program based on cost of the concessions or services that can be redeemed, and its estimate of full redemption. At the time of redemption, the Group records a reduction of accrued expenses and other liabilities.

For the years ended December 31, 2016 and 2017 the total points recorded as selling and marketing expenses were HK\$3,051 thousand and HK\$198 thousand, respectively. As of December 31, 2016 and 2017, liabilities recorded related to unredeemed points in other scenarios were HK\$2,968 thousand and HK\$488 thousand, respectively.

***Cash and Cash Equivalents***

Cash and cash equivalents represent cash on hand, demand deposits and time deposits placed with banks or other financial institutions, which are unrestricted to withdrawal or use, and which have original maturities of three months or less.

***Cash Held on Behalf of Clients***

The Group has classified the clients' deposits as cash held on behalf of clients under the assets section in the consolidated balance sheets and recognized the corresponding accounts payables to the respective clients under the liabilities section.

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Property and Equipment, net***

Property and equipment, which are included in other assets in the consolidated balance sheets are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

<u>Category</u>	<u>Estimated useful lives</u>	<u>Residual rate</u>
Computers equipment	3 - 5 years	5%
Furniture and fixtures	3 - 5 years	5%
Office equipment	3 - 5 years	5%
Vehicle	5 years	5%

Expenditures for maintenance and repairs are expensed as incurred.

***Intangible Assets***

Intangible assets which are included in other assets in the consolidated balance sheets mainly consist of computer software and golf membership. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Computer software	5 years
Golf membership	10 years

The Operating Company also holds a trading right as a clearing member firm of Hong Kong Exchanges and Clearing Limited (“HKEx”) in order to trade securities through the trading facilities of the Stock Exchange. The trading right had been recognized as intangible asset and full amortized.

***Refundable Deposit***

Refundable deposit is included in other assets in the consolidated balance sheets. As a clearing member firm of HKEx, the Group is also exposed to clearing member credit risk. HKEx requires member firms to deposit cash to a clearing fund. If a clearing member defaults in its obligations to the clearing organization in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. HKEx has the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost if the Group is required to pay such assessments.

***Fair Value Measurements***

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fair Value Measurements (Continued)***

value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

The carrying amount of cash and cash equivalents, cash held on behalf of clients, receivables from and payables to clients, brokers and clearing organization, amounts due from and due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Loans and advances and accrued interest receivable are measured at amortized cost. Short-term borrowings and accrued interest payable are carried at amortized cost. The carrying amount of loans and advances, short-term borrowings, accrued interest receivable, and accrued interest payable approximates their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Available-for-sale financial securities are measured at fair value.

The Group's non-financial assets, such as property, equipment and computer software, would be measured at fair value only if they were determined to be impaired.

***Brokerage Commission and Handling Charge Expenses***

Commission expenses for executing and/or clearing transactions are accrued on a trade-date basis. The commission expenses are charged by executing brokers in the United States for securities trading in the United States stock markets as the Operating Company makes securities transaction with these brokers as principal instead of as agent in the Hong Kong securities brokerage business.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Brokerage Commission and Handling Charge Expenses (Continued)*

Handling and settlement fee is charged by HKEx or executing brokers in the United States for clearing and settlement services, are accrued on a trade-date basis.

IPO subscription service charge expenses are charged by commercial banks in connection with new share subscription services in relation to IPOs in the Hong Kong capital market.

*Interest Expenses*

Interest Expenses primarily consists of interest expenses of borrowings from banks, other licensed financial institutions and other parties paid to fund the Operating Company's margin financing business and IPO financing business.

*Processing and Servicing Costs*

Processing and servicing costs consists of market data and information fee, data transmission fee, cloud service fee, and SMS service fee, etc. The nature of market information and data fee mainly represents for information and data fee paid to stock exchanges like HKEx, NASDAQ, and New York stock exchange, etc. Data transmission fee is the fee of data transmission among cloud server and data centers located in Shenzhen, PRC and Hong Kong, etc. Cloud service fee and SMS service fee mainly represent the data storage and computing service and the SMS channel service fee, see Note 26 for further explanation.

*Research and Development Expenses*

Research and development expenses consist of expenses related to developing transaction platform and website like *Futu NiuNiu* app and other products, including payroll and welfare, rental expenses and other related expenses for IT function. All research and development costs have been expensed as incurred as the costs qualifying for capitalization have been insignificant.

*Selling and Marketing Expenses*

Selling and marketing expenses consist primarily of advertising and promotion costs, payroll, rental and related expenses for personnel engaged in marketing and business development activities. Advertising and promotion costs are expensed as incurred and are included within selling and marketing expenses in the consolidated statements of comprehensive loss. For the years ended December 31, 2016 and 2017, advertising and promotion costs totaled HK\$47,380 thousand and HK\$30,362 thousand, respectively.

*General and Administrative Expenses*

General and administrative expenses consist of payroll, rental, and related expenses for employees involved in general corporate functions, including finance, legal and human resources; costs associated with use of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

*Others, net*

Others, net, mainly consist of non-operating income and expenses, foreign currency gains or losses, other impairment for all periods presented. Non-operating expenses mainly consist of accrued social security

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Others, net (Continued)*

underpayment surcharge. Other impairment mainly consists of write-offs of costs incurred for acquiring a Chinese licensed corporation in Hong Kong due to the change of the Group's business plan.

*Share-Based Compensation*

All share-based awards to employees and directors, such as stock options, are measured at the grant date based on the fair value of the awards. Share-based compensation, net of estimated forfeitures, is recognized as expenses on a straight-line method over the requisite service period, which is the vesting period. Options granted generally vest over four or five years.

The Group uses the fair value of each of the Company's ordinary shares on the grant date to estimate the fair value of stock options.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate pre-vesting options and records share-based compensation expenses only for those awards that are expected to vest. See Note 13 for further discussion on share-based compensation.

*Fair Value of Preferred Shares and Ordinary Shares*

Shares of the Company, which do not have quoted market prices, were valued based on the income approach. The income approach involves applying the discounted cash flow analysis based on projected cash flow using the Group's best estimate as of the valuation dates. Estimating future cash flow requires the Group to analyze projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. In determining an appropriate discount rate, the Group considered the cost of equity and the rate of return expected by venture capitalists. The Group also applied a discount for lack of marketability given that the shares underlying the award were not publicly traded at the time of grant. Determination of estimated fair value of the Group requires complex and subjective judgments due to its limited financial and operating history, unique business risks and limited public information on companies in China similar to the Group.

Option-pricing method was used to allocate enterprise value to preferred shares and ordinary shares. The method treats preferred shares and ordinary shares as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred shares. The strike prices of the "options" based on the characteristics of the Group's capital structure, including number of shares of each class of ordinary shares, seniority levels, liquidation preferences, and conversion values for the preferred shares. The option-pricing method also involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of the Group or an initial public offering, and estimates of the volatility of the Group's equity securities. The anticipated timing is based on the plans of board of directors and management of the Group. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Taxation***

1) Income tax

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in statement of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

2) Uncertain tax positions

The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2016 and 2017. As of December 31, 2016 and 2017, the Group did not have any significant unrecognized uncertain tax positions.

***Net loss per share***

Basic net loss per share is computed by dividing net loss attributable to ordinary shareholder, considering the accretion of redemption feature and cumulative dividend related to the Company's redeemable convertible preferred shares, and undistributed earnings allocated to redeemable convertible preferred shares by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted net loss per share is calculated by dividing net loss attributable to ordinary shareholder, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the redeemable convertible preferred shares, using the if-converted method, and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net loss per share calculation when inclusion of such share would be anti-dilutive.

***Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographic location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Segment Reporting (Continued)*

The Group engages primarily in online brokerage services and margin financing services for clients in Hong Kong and PRC. The Group does not distinguish between markets or segments for the purpose of internal reports. The Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole. Hence, the Group has only one reportable segment.

*Significant Risks and Uncertainties*

1) Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. As an online broker active in Hong Kong and the U.S. market, the Operating Company is exposed to minimal transactional foreign currency risk since Hong Kong dollars are pegged against U.S. dollars. The impact of foreign currency fluctuations in the Group's earnings is included in "others, net" in the consolidated statements of comprehensive loss. At the same time, the Group is exposed to translational foreign currency risk since most of the Group's subsidiaries have RMB as their functional currency. Therefore, RMB depreciation against Hong Kong dollars could have a material adverse impact on the foreign currency translation adjustment in the consolidated statements of comprehensive loss.

2) Credit risk

The Group's securities activities are transacted on either a cash or margin basis. The Group's credit risk is limited in that substantially all of the contracts entered into are settled directly at securities clearing organization. In margin transactions, the Group extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. IPO loans are exposed to credit risk from clients who fail to repay the loans upon IPO stock allotment. The Group monitor the clients' collateral level and has the right to dispose the newly allotted stocks once the stocks start trading. Bridge loans to enterprise pledged by shares are exposed to credit risk from counterparties who fails to repay the loans, the Group monitors on the collateral level of bridge loans in real time, and has the right to dispose of the pledged shares once the collateral level falls under the minimal level required to get the loans repaid.

Liabilities to other brokers and dealers related to unsettled transactions are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers.

In connection with its clearing activities, the Group is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Group. Clients are required to complete their transactions by the settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, the Group may incur losses. The Group has established procedures to reduce this risk by generally requiring that clients deposit sufficient cash and/or securities into their account prior to placing an order.

*Concentrations of Credit Risk*

The Group's exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. There was no revenue from clients which individually represented greater than 10% of the total revenues for the year ended December 31, 2016 and 2017, respectively. Concentrations of credit risk can be affected by changes in political,

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Significant Risks and Uncertainties (Continued)*

2) Credit risk (Continued)

*Concentrations of Credit Risk (Continued)*

industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of December 31, 2017 and 2016, the Group did not have any material concentrations of credit risk outside the ordinary course of business.

3) Interest rate risk

Fluctuations in market interest rates may negatively affect our financial condition and results of operations. The Group is exposed to floating interest rate risk on cash deposit and floating rate borrowings, and the risks due to changes in interest rates is not material. The Group has not used any derivative financial instruments to manage our interest risk exposure.

*Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Clients (Topic 606)" ("ASU 2014-09") and subsequently, the FASB issued several amendments which amend certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as "ASC 606"). According to ASC 606, revenue is recognized when control of the promised good or service is transferred to the clients, in an amount that reflects the consideration. The Group expect to be entitled to in exchange for those goods or services. The Group will enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns, and any taxes collected from clients, which are subsequently remitted to governmental authorities. The Group adopted ASC 606 using the full retrospective method for all periods presented.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. Further, in March 2018, the FASB issued "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which provides further guidance on adjustments for observable transaction for equity securities without a readily determinable fair value and clarification on fair value option for liabilities instruments. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption by public entities is permitted only for certain provisions. The Group does not expect the adoption of ASU 2016-01 to have a significant impact on consolidated financial statements and associated disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU is effective for reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The ASU will require lessees to report most leases as assets and liabilities on the balance

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Recent Accounting Pronouncements (Continued)*

sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The Group is currently evaluating the impact that the adoption of this standard will have on its financial condition and results from operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for share-based compensation transactions specifically related to the tax effects associates with share-based compensation, an accounting policy election to determine how forfeitures are recorded and a change in the presentation requirements in the statement of cash flows. Non-public companies are also granted two additional optional provisions that would provide a practical expedient for determining the expected term and a one-time opportunity to change the measurement basis for all liability-classified awards to intrinsic value. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group does not expect the adoption of ASU 2017-09 to have a significant impact on the consolidated financial statements and associated disclosures.

In June 2016, FASB amended guidance related to impairment of financial instruments as part of ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which will be effective on January 1, 2020. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a group is required to recognize an allowance based on its estimate of expected credit loss. The Group is currently evaluating the impact of this new guidance on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230). The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Group has early adopted the ASU for the periods presented.

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

*Financial Assets and Liabilities Measured at Fair Value*

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets measured at fair value as of December 31, 2017 and December 31, 2016. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	Financial Assets At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Other financial assets	10	—	—	10

	Financial Assets At Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial securities	—	2,236	—	2,236
Other financial assets	15	—	—	15
	<u>15</u>	<u>2,236</u>	<u>—</u>	<u>2,251</u>

*Transfers Between Level 1 and Level 2*

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period. During the years ended December 31, 2017 and 2016, there were no transfers between levels for financial assets and liabilities, at fair value.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Financial Assets and Liabilities Not Measured at Fair Value*

The following tables represent the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Group's consolidated balance sheets. The following table excludes all non-financial assets and liabilities:

	As of December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial assets, not measured at fair value</b>					
Cash and cash equivalents	375,263	375,263	375,263	—	—
Cash held on behalf of clients	7,176,579	7,176,579	7,176,579	—	—
Amounts due from related parties	6,541	6,541	—	6,541	—
Loans and advances	2,907,967	2,907,967	—	2,907,967	—
Receivables:					
Clients	218,960	218,960	—	218,960	—
Brokers	106,078	106,078	—	106,078	—
Clearing organization	55,892	55,892	—	55,892	—
Interest	7,041	7,041	—	7,041	—
Other financial assets	33,331	33,331	—	33,331	—
<b>Total financial assets, not measured at fair value</b>	<u>10,887,652</u>	<u>10,887,652</u>	<u>7,551,842</u>	<u>3,335,810</u>	<u>—</u>

	As of December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial liabilities, not measured at fair value</b>					
Amounts due to related parties	14,687	14,687	—	14,687	—
Payables:					
Clients	7,340,823	7,340,823	—	7,340,823	—
Brokers	929,692	929,692	—	929,692	—
Clearing organization	82,878	82,878	—	82,878	—
Interest	2,066	2,066	—	2,066	—
Short-term borrowings	1,542,448	1,542,448	—	1,542,448	—
Other financial liabilities	10,832	10,832	—	10,832	—
<b>Total financial liabilities, not measured at fair value</b>	<u>9,923,426</u>	<u>9,923,426</u>	<u>—</u>	<u>9,923,426</u>	<u>—</u>

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Financial Assets and Liabilities Not Measured at Fair Value (Continued)*

	As of December 31, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial assets, not measured at fair value</b>					
Cash and cash equivalents	179,016	179,016	179,016	—	—
Cash held on behalf of clients	3,345,172	3,345,172	3,345,172	—	—
Amounts due from related parties	1,006	1,006	—	1,006	—
Loans and advances	126,163	126,163	—	126,163	—
Receivables:					
Clients	792,480	792,480	—	792,480	—
Brokers	9,918	9,918	—	9,918	—
Clearing organization	9,614	9,614	—	9,614	—
Interest	1,070	1,070	—	1,070	—
Other financial assets	15,460	15,460	—	15,460	—
<b>Total financial assets, not measured at fair value</b>	<b>4,479,899</b>	<b>4,479,899</b>	<b>3,524,188</b>	<b>955,711</b>	<b>—</b>

	As of December 31, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial liabilities, not measured at fair value</b>					
Amounts due to related parties	6,479	6,479	—	6,479	—
Payables:					
Clients	4,107,782	4,107,782	—	4,107,782	—
Brokers	31,446	31,446	—	31,446	—
Clearing organization	10,441	10,441	—	10,441	—
Interest	2,481	2,481	—	2,481	—
Short-term borrowings	161,179	161,179	—	161,179	—
Convertible notes	32,030	32,030	—	32,030	—
Other financial liabilities	6,843	6,843	—	6,843	—
<b>Total financial liabilities, not measured at fair value</b>	<b>4,358,681</b>	<b>4,358,681</b>	<b>—</b>	<b>4,358,681</b>	<b>—</b>

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Netting of Financial Assets and Financial Liabilities*

In the tables below, the amounts of financial instruments that are not offset in the consolidated balance sheets, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing organization, are presented to provide financial statement readers with the Group's net payable or receivable with counterparties for these financial instruments, as of December 31, 2017 and 2016.

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
2017	HK\$ in thousands					
<b>Financial Assets</b>						
Amounts due from clearing organization	944,194	(888,302)	55,892	—	—	55,892
Deposit paid for securities borrowed <sup>(1)</sup>	96,347	—	96,347	—	(73,726)	22,621
<b>Financial liabilities</b>						
Amounts due to clearing organization	989,229	(906,351)	82,878	—	—	82,878
Deposit received for securities lent <sup>(1)</sup>	117,848	—	117,848	—	(73,726)	44,122

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
2016	HK\$ in thousands					
<b>Financial assets</b>						
Amounts due from clearing organization	227,197	(217,583)	9,614	—	—	9,614
Deposit paid for securities borrowed <sup>(1)</sup>	52	—	52	—	(40)	12
<b>Financial liabilities</b>						
Amounts due to clearing organization	206,872	(196,431)	10,441	—	—	10,441
Deposit received for securities lent <sup>(1)</sup>	64	—	64	—	(40)	24

- (1) The Operating Company borrows securities from a securities lender and subsequently lends the securities to customers. Under this agreement the amounts of deposits paid for securities borrowed is transacted through the securities lender and the Operating Company receives deposits from customers for securities borrowing purpose. For presentation purposes, these amounts presented are included in "Receivables from brokers" and "Payables to clients" in the consolidated balance sheets, respectively.

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. LOANS AND ADVANCES

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Margin loans	126,163	2,865,035
Other advances	—	42,932
Total	<u>126,163</u>	<u>2,907,967</u>

## 5. PROPERTY AND EQUIPMENT, NET

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
<b>Gross carrying amount</b>		
Computers and equipment	2,382	5,876
Furniture and fixtures	3,543	3,791
Office equipment	6,701	11,997
Vehicle	<u>632</u>	<u>637</u>
Total of gross carrying amount	<u>13,258</u>	<u>22,301</u>
<b>Less: accumulated depreciation</b>		
Computers and equipment	(1,410)	(2,639)
Furniture and fixtures	(1,116)	(1,984)
Office equipment	(2,340)	(3,992)
Vehicle	<u>(170)</u>	<u>(293)</u>
Total of accumulated depreciation	<u>(5,036)</u>	<u>(8,908)</u>
Property and equipment, net	<u>8,222</u>	<u>13,393</u>

Depreciation expenses on property and equipment which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the consolidated statements of comprehensive loss for the years ended December 31, 2016 and 2017 were HK\$3,354 thousand and HK\$3,998 thousand, respectively.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INTANGIBLE ASSETS, NET

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	(HK\$ in thousands)	
<b>Gross carrying amount</b>		
Computer software	1,072	1,217
Golf membership	678	726
Trading right	500	500
Total of gross carrying amount	<u>2,250</u>	<u>2,443</u>
<b>Less: accumulated amortization</b>		
Computer software	(236)	(579)
Golf membership	(11)	(85)
Trading right	(500)	(500)
Total of accumulated amortization	<u>(747)</u>	<u>(1,164)</u>
Intangible assets, net	<u>1,503</u>	<u>1,279</u>

Amortization expenses on intangible assets which are included in research and development expenses, selling and marketing expense and general and administrative expenses in the consolidated statements of comprehensive loss for the years ended December 31, 2016 and 2017 were HK\$222 thousand and HK\$302 thousand, respectively.

7. OTHER ASSETS

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	(HK\$ in thousands)	
Property and equipment, net (Note 5)	8,222	13,393
Intangible assets, net (Note 6)	1,503	1,279
Deferred tax assets (Note 22)	19,839	15,776
Refundable deposit	6,004	18,659
Others	10,308	16,811
Total	<u>45,876</u>	<u>65,918</u>

8. SHORT-TERM BORROWINGS

	<u>As of December 31,</u>	
	<u>2016</u>	<u>2017</u>
	(HK\$ in thousands)	
Borrowings from:		
Banks	—	1,142,448
Related parties	161,179	400,000
Total	<u>161,179</u>	<u>1,542,448</u>

The Group loaned short-term borrowings mainly support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of 4.09% and 3.18% as of December 31, 2016 and 2017, respectively.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. SHORT-TERM BORROWINGS (Continued)**

As of December 31, 2016, The Group has facility from a related party, of which principal amounts to RMB10,000 thousand with fixed interest rate of 5.35% per annum, guaranteed by Mr. Leaf Hua Li, the principal shareholder, the founder, chairman and chief executive officer of the Group. The short-term borrowing has been fully repaid to the related party in 2017.

In September 2016, the Group entered into a revolving loan agreement with a related party of a facility amount of up to HK\$200,000 thousand with fixed interest rate of 4% per annum. The short-term borrowing has been repaid by the means of transforming claims into the partial settlement of consideration of series C preferred shares in 2017 (Note 12).

In December 2017, the Group entered into a loan agreement with a related party of a facility amount of up to HK\$700,000 thousand with a maturity date of June 21, 2018 at a fixed interest rate equal to 4.5% per annum. As of December 31, 2017, the outstanding balance of the loan was HK\$400,000 thousand.

In February 2017, the Group entered into an uncommitted revolving loan agreement with a commercial bank in Hong Kong of a share margin financing overdraft facility amount of up to HK\$180,000 thousand bearing interest of 1.5% per annum over HIBOR. The outstanding balance is repayable on demand by the bank or otherwise becomes due in December 2018. As of December 31, 2017, the outstanding balance of the loan was HK\$177,700 thousand, which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients with market value of HK\$406,000 thousand as collateral.

In August 2017, the Group entered into an uncommitted revolving loan agreement with an aggregate facility amount of up to HK\$140,000 thousand with a commercial bank in Hong Kong. The loan will mature in August 2018, and bear interest at a floating rate of 1.6% per annum over applicable HIBOR or 0.7% per annum over the deposit rate, whichever is lower (for Hong Kong Dollars), or 1.6% per annum over applicable LIBOR or 0.7% per annum over the deposit rate, whichever is lower (for US Dollars). As of December 31, 2017, the outstanding balance of the loan was HK\$140,000 thousand which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients with market value of HK\$320,740 thousand as collateral.

In September 2017, the Group entered into an uncommitted revolving loan agreement with a commercial bank in Hong Kong of a facility amount of US\$35,000 thousand to finance margin financing business, which will mature in March 2018. US\$30,000 thousand out of the US\$35,000 thousand loan will bear interest at a floating rate of 1.6% per annum over LIBOR (for US\$ advances) or 1.5% per annum over HIBOR (for HK\$ advances) or 1% per annum over the Bank's cost of funds (for RMB advances), while the other US\$5,000 thousand will bear interest at a floating rate of 2.2% per annum over LIBOR (for US\$ advances) or 2.1% per annum over HIBOR (for HK\$ advances) or 1.5% per annum over the bank's cost of funds (for RMB advances). As of December 31, 2017, the outstanding balance of the loan was HK\$128,000 thousand, which was guaranteed by Mr. Leaf Hua Li and pledged by shares of our margin financing clients with market value of HK\$426,300 thousand as collateral.

In November 2017, the Group entered into a one-year credit agreement with a commercial bank in Hong Kong, which provided a revolving loan facility of up to an aggregate maximum amount of HK\$750,000 thousand (or 90% of its equivalent in RMB). The facility will expire in November 2018. The Group is entitled to choose the interest period ("Interest Period") for each advance being either one, two or three month(s). In case of drawings in HK\$, the interest shall be charged at 1.5% per annum over HIBOR for the relevant Interest Period. In case of drawings in RMB, the interest shall be charged at 1.5% per annum over the CNH HIBOR for the relevant Interest Period. All amounts borrowed under this Facility (including interest accrued thereon) shall be

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. SHORT-TERM BORROWINGS (Continued)**

repaid or reborrowed at the end of each Interest Period. As of December 31, 2017, the Group had an outstanding borrowing balance of HK\$380,000 thousand under the facility, which was guaranteed by Mr. Leaf Hua Li and pledged by shares of margin clients with market value of HK\$1,299,200 thousand as collateral.

In December 2017, the Group entered into an uncommitted revolving loan agreement with a commercial bank in Hong Kong of a facility amount of up to HK\$500,000 thousand or its equivalent in US\$ or RMB, which will mature in December 2018. Each drawing will bear interest at a floating rate which will be determined case-by-case in accordance with the bank's common practice and which shall from time to time be agreed by the Group. As of December 31, 2017, the outstanding balance of the loan was HK\$300,000 thousand, which was guaranteed by Mr. Leaf Hua Li.

In December 2017, the Group entered into a loan agreement with an aggregate amount of up to US\$8,000 thousand or its equivalent amount in RMB with a commercial bank in China, of which HK\$5,000 thousand is revolving with maturity date in December 2018, while the remaining HK\$3,000 thousand is non-revolving and will mature in December 2020. The loan bear interest at a fixed rate of 5.80% per annum. As of December 31, 2017, the outstanding balance of the loan was HK\$16,748 thousand, which was guaranteed by Mr. Leaf Hua Li.

**9. CONVERTIBLE NOTES**

In May 2015, the Group issued convertible notes in the aggregated principal amount of HK\$30,000, thousand (US\$3,855 thousand) to Qiantang River Investment Limited ("Qiantang River"), the investor of the Group with compounding interest at 4% per annum, maturing one year after the issuance date. Subsequently, an amendment agreed between the Group and the holder of the convertible note to extend maturity date to one year more after the effective date. Pursuant to the convertible note agreement, the holder of the convertible note may convert the outstanding principal of the convertible note and accrued but unpaid interest under this convertible note into a number of shares of Series C Convertible Redeemable Preferred Shares ("Series C Preferred Shares") of the Company at a per share price of the Series C Preferred Shares; or (ii) convert the outstanding balance in whole or in part into fully paid and non-assessable shares of the Company's Ordinary Shares at a price per share equal to the fair market value of the Company's ordinary shares immediately prior to the change of control or IPO, as applicable.

In conjunction with the issuance of the convertible notes, the Group entered into a Series C Preferred Shares purchase agreement with Image Frame Investment (Hong Kong) Limited, the fellow subsidiary of Qiantang River, the convertible note investor and issued shares of Series C Preferred Shares to it. The issuance of Series C Preferred Shares was to allow convertible note investor to exercise voting rights in the Company on an as-converted basis. No other rights of Series C Preferred Shares could be enjoyed by Qiantang River, convertible note investor prior to the conversion of the convertible note.

Convertible notes, which were classified as liabilities, was initially measured at par under ASC 470 and subsequently stated at amortized cost plus accrued unpaid interest with any difference between the initial carrying value and the principal amount as interest expenses using the effective interest method over the period from the issuance date to the maturity date.

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(HK\$ in thousands)</b>	
Payroll and welfare payable	13,179	36,017
Tax payables	2,474	5,135
Stamp duty, trading levy and trading fee payables	1,324	5,739
Accrued surcharges of social security underpayment	3,044	5,451
Contract liabilities	2,551	4,404
Others	4,117	3,971
<b>Total</b>	<b>26,689</b>	<b>60,717</b>

**11. ORDINARY SHARES**

The Company's original Memorandum and Articles of Association authorizes the Company to issue 807,500 ordinary shares with a par value of US\$0.0050 per share. After a share split effective on September 22, 2016, the Company's amended Memorandum and Articles of Association authorizes the Company to issue 403,750,000 ordinary shares with a par value of US\$0.00001 per share. Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

*Dividend distribution*

Dividend distribution to the Company's shareholder is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

**12. REDEEMABLE CONVERTIBLE PREFERRED SHARES**

In October 2014, the Group issued 250,000 Series A Convertible Redeemable Preferred Shares ("Series A Preferred Shares") for an aggregate purchase price of US\$7,000 thousand and 46,875 Series A-1 Convertible Redeemable Preferred Shares ("Series A-1 Preferred Shares") for an aggregate purchase price of US\$1,500 thousand.

In May 2015, the Group issued 176,847 Series B Convertible Redeemable Preferred Shares ("Series B Preferred Shares") for an aggregate purchase price of US\$30,000 thousand.

All the Series A, Series A-1 and Series B Preferred Shares were issued for cash consideration and have the same par value of US\$0.005 per share at each issuance date.

After a share split effective on September 22, 2016, the number of shares of Series A, Series A-1 and Series B Preferred Shares were proportionally split with par value of US\$0.00001 per share. 125,000,000 Series A Preferred Shares, 23,437,500 Series A-1 Preferred Shares and 88,423,500 Series B Preferred Shares were issued in the Company's amended Memorandum and Articles of Association.

In May 2017, the Group issued 128,844,812 Series C Convertible Redeemable Preferred Shares ("Series C Preferred Shares") for an aggregate purchase price of US\$91,362 thousand and 12,225,282 Series C-1

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

Convertible Redeemable Preferred Shares (“Series C-1 Preferred Shares”) for an aggregate purchase price of US\$12,609 thousand.

Out of the total Series C Preferred Shares, i) 95,094,173 Series C Preferred Shares were issued for cash consideration of US\$67,430 thousand; ii) 5,878,794 Series C Preferred Shares were converted from the convertible note with the principal amount of US\$3,855 thousand plus accrued but unpaid interest of US\$314 thousand at the price per share of US\$0.71; and iii) 27,871,845 Series C Preferred Shares were issued from the repayment of an outstanding principal amount of US\$19,274 thousand plus accrued but unpaid interest of US\$490 thousand loaned by the fellow subsidiary of the investor of Series C Preferred Shares to the Company. The total Series C-1 Preferred Shares were issued of cash consideration.

The Series A, Series A-1, Series B, Series C and Series C-1 Preferred Shares are collectively referred to as the “Preferred Shares”. All series of Preferred Shares have the same par value of US\$0.00001 per share.

The Group determined that the Series A, Series A-1, Series B, Series C and Series C-1 Preferred Shares should be classified as mezzanine equity upon their respective issuance since the Preferred Shares are contingently redeemable at any time on or after May 22, 2023 (the sixth anniversary of the issuance date of the Series C Preferred Shares) from the issuance date in the event that a qualified initial public offering (“QIPO”) has not occurred and the Preferred Shares have not been converted. The QIPO is defined as the closing of a firm commitment underwritten public offering of ordinary shares of the Company (or depositary receipts or depositary shares therefor) on the an internationally recognized securities exchange agreed to by the Company and the requisite holders at a public offering price per share corresponding to a valuation of the Company of at least US\$1 billion or more on a fully diluted basis immediately following the completion of such offering, and also raising a financing amount no less than US\$200 million (net of underwriters discounts and commissions).

The major rights, preferences and privileges of the Preferred Shares issued by the Company are as follows:

***Conversion Rights***

1) Optional Conversion

Each of the Preferred Shares is convertible, at the option of the holder, into the Company’s ordinary shares at an initial conversion ratio of 1:1 at any time after the date of issuance of such Preferred Shares, subject to adjustments in the event of (i) share splits and combinations, (ii) ordinary share dividends and distributions, or (iii) reorganizations, mergers, consolidations, reclassifications, exchanges and substitutions.

2) Automatic Conversion

Each Preferred Share shall automatically be converted into ordinary shares, at the then-effective preferred share conversion price upon the occurrence of a QIPO.

***Voting Rights***

The holder of each ordinary share issued and outstanding has one vote for each ordinary share held and the holder of each Preferred Shares has the number of votes as equals to the number of ordinary shares then issuable upon their conversion into ordinary shares. To the extent that applicable law, Memorandum and Articles of the Company allow any class or series of Preferred Shares to vote separately as a class or series with respect to any matters, such Preferred Shares shall vote separately as a class or series with respect to such matters.

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

***Redemption Rights***

Redemption Condition for Preferred Shares:

The Preferred Shares are redeemable in the event of:

- i) any material breach of the transaction documents by any Group Company which involves fraud, intentional misconduct, or gross negligence, and which results in a material adverse effect;
- ii) the failure of a QIPO to occur by the sixth anniversary of the issuance date of the Series C Preferred Shares; or
- iii) requested by a majority holders of the Preferred Shares.

The redemption price of each Preferred Share shall be the sum of (i) the Preferred Shares issuance price, (ii) plus interest thereon at 6% per annum on the issuance price, compounded annually; and (iii) plus any accrued but unpaid dividends.

The Group accretes changes in the redemption value over the period from the date of issuance of the Preferred Shares to their respective earliest redemption date using effective interest method. Changes in the redemption value are considered to be changes in accounting estimates. The accretion will be recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges should be recorded by increasing the accumulated deficit.

***Dividends Rights***

Each holders of the Preferred Shares shall be entitled to receive preferential dividends prior and in preference before, any dividend on the ordinary shares. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be non-cumulative.

***Liquidation Preferences***

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, all assets and funds of the Company legally available for distribution among holders of the outstanding Shares (on an as-converted to basis) in the following order and manner:

- i) the holders of the Series C Preferred Shares and Series C-1 Preferred Shares shall be entitled to receive for each Series C Preferred Share and Series C-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to 100% of the Series C issuance price and Series C-1 issuance price, plus all accrued but unpaid dividends on such Series C Preferred Share and Series C-1 Preferred Share, as applicable (collectively, the "Series C Preference Amount").
- ii) if there are any assets or funds remaining after the aggregate Series C Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares and Series C-1 Preferred Shares, the holders of the Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

*Liquidation Preferences (Continued)*

of shares by reason of their ownership of such shares, the amount equal to 100% of the Series B issuance price, plus all accrued but unpaid dividends on such Series B Preferred Share (collectively, the "Series B Preference Amount"). If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the Series B Preference Amount each such holder is otherwise entitled to receive.

- iii) if there are any assets or funds remaining after the aggregate Series C Preference Amount and Series B Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares, Series C-1 Preferred Shares and Series B Preferred Shares, respectively, the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be entitled to receive for each Series A Preferred Share and Series A-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the remaining assets or funds of the Company to the holders of Ordinary Shares by reason of their ownership of such shares, the amount equal to 100% of the Series A issuance price or the Series A-1 issuance price, as applicable, plus all accrued but unpaid dividends on such Series A Preferred Share and Series A-1 Preferred Share, as applicable (collectively, the "Series A Preference Amount"). If the assets and funds thus distributed among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares in proportion to the Series A Preference Amount each such holder is otherwise entitled to receive.
- iv) if there are any assets or funds remaining after the aggregate of the Series A Preference Amount, Series B Preference Amount and Series C Preference Amount have been distributed or paid in full to the applicable holders of Preferred Shares, the remaining assets and funds of the Company available for distribution to the shareholders shall be distributed ratably among the holders of the Preferred Shares (on an as-converted basis), together with the holders of the ordinary shares.

*Accounting of the Preferred Shares*

The Company classified the Preferred Shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control. The Preferred Shares are recorded initially at fair value, net of issuance costs.

The Group determined that the embedded conversion features and the redemption features do not require bifurcation as they either are clearly and closely related to the Preferred Shares or do not meet the definition of a derivative.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Preferred Shares. In making this determination, the Group compared the initial effective conversion prices of the Preferred Shares and the fair values of the Group's ordinary shares determined by the Group at the issuance dates. The initial effective conversion prices were greater than the fair values of the ordinary shares to which the Preferred Shares are convertible into at the issuance dates.

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

*Accounting of the Preferred Shares (Continued)*

The Group's Preferred Shares activities for the years ended December 31, 2016 and 2017 are summarized below:

	Series A Preferred Shares		Series A-1 Preferred Shares		Series B Preferred Shares		Series C Preferred Shares		Series C-1 Preferred Shares	
	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$
Balances at December 31, 2015	125,000,000	58,246,523	23,437,500	12,481,402	88,423,500	240,518,000	—	—	—	—
Preferred Shares redemption value accretion	—	3,259,872	—	698,544	—	13,970,880	—	—	—	—
Balances at December 31, 2016	125,000,000	61,506,395	23,437,500	13,179,946	88,423,500	254,488,880	—	—	—	—
Issuance of Preferred Shares	—	—	—	—	—	—	128,844,812	708,765,649	12,225,282	97,818,708
Preferred Shares redemption value accretion	—	3,273,858	—	701,541	—	14,030,820	—	26,106,072	—	3,602,966
Balances at December 31, 2017	<u>125,000,000</u>	<u>64,780,253</u>	<u>23,437,500</u>	<u>13,881,487</u>	<u>88,423,500</u>	<u>268,519,700</u>	<u>128,844,812</u>	<u>734,871,721</u>	<u>12,225,282</u>	<u>101,421,674</u>

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SHARE-BASED COMPENSATION**

Share-based compensation was recognized in operating expenses for the years ended December 31, 2016 and 2017 as follows:

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Selling and marketing expenses	261	161
Research and development expenses	8,335	8,854
General and administrative expenses	559	754
Total share-based compensation expenses	<u>9,155</u>	<u>9,769</u>

**Share Options**

In October, 2014, the Board of Directors of the Group approved the establishment of 2014 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to the Group. The 2014 Share Incentive Plan shall be valid and effective until October 30, 2024. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2014 Share Incentive Plan shall be 135,032,132 shares. Option awards are granted with an exercise price determined by the Board of Directors. Those option awards generally vest over a period of four or five years and expire in ten years.

For the years ended December 31, 2016 and 2017, the Group granted 7,783,301 and 217,455 share options to employees pursuant to the 2014 Share Incentive Plan.

A summary of the stock option activity under the 2014 Share Incentive Plan for the years ended December 31, 2016 and 2017 is included in the table below.

	Options granted share Number	Weighted average exercise price (US\$)
Outstanding at January 1, 2016	103,624,019	0.0057
Granted	<u>7,783,301</u>	0.1648
Outstanding at December 31, 2016	<u>111,407,320</u>	0.0168
Granted	<u>217,455</u>	0.9188
Outstanding at December 31, 2017	<u>111,624,775</u>	0.0186

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SHARE-BASED COMPENSATION (Continued)

*Share Options (Continued)*

The following table summarizes information regarding the share options granted as of December 31, 2016 and December 31, 2017:

	As of December 31, 2016			
	Number of options	Weighted-average exercise price	Weighted-average remaining exercise contractual life	Aggregate intrinsic value HK\$ in thousand
Outstanding	111,407,320	0.0168	7.84	3,597
Exercisable	44,540,241	0.0035	7.84	1,515
Expected to vest	66,867,079	0.0257	7.84	2,082

	As of December 31, 2017			
	Number of options	Weighted-average exercise price	Weighted-average remaining exercise contractual life	Aggregate intrinsic value HK\$ in thousand
Outstanding	111,624,775	0.0186	6.84	6,660
Exercisable	70,630,894	0.0073	6.84	4,317
Expected to vest	40,993,881	0.0380	6.84	2,343

The weighted average grant date fair value of options granted for the years ended December 31, 2016 and 2017 was US\$0.1122 and US\$0.0998 per option, respectively.

No options were exercised for the years ended December 31, 2016 and 2017.

The fair value of each option granted under the Company's 2014 Share Incentive Plans during 2016 and 2017 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	2016	2017
Exercise price (US\$)	0.00001-0.02	0.8-1.03
Fair value of the ordinary shares on the date of option grant (US\$)	0.2033	0.4220
Risk-free interest rate	0.91%	1.30%
Expected term (in years)	8.3	7.3
Expected dividend yield	0%	0%
Expected volatility	48%	46%
Expected forfeiture rate (post-vesting)	15%	15%

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SHARE-BASED COMPENSATION (Continued)***Share Options (Continued)*

standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Company has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

As of December 31, 2016 and 2017, there was HK\$25,406 thousand (US\$3,276 thousand) and HK\$15,644 thousand (US\$2,023 thousand) of unrecognized compensation expenses related to the options, which is expected to be recognized over a weighted-average period of 2.37 and 1.38 years, respectively.

**14. NET LOSS PER SHARE**

Basic net loss per share and diluted net loss per share have been calculated in accordance with ASC 260 on computation of earnings per share for the years ended December 31, 2016 and 2017 as follows:

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands, except for share and per share data)	
<b>Numerator:</b>		
Net loss attributable to ordinary shareholder of the Company	(116,400)	(55,817)
<b>Denominator:</b>		
Weighted average number of ordinary shares outstanding-basic and diluted	403,750,000	403,750,000
Basic and diluted net loss per share attributable to ordinary shareholder of the Company	<u>(0.29)</u>	<u>(0.14)</u>

The potentially dilutive securities that were not included in the calculation of above dilutive net loss per share in the years presented where their inclusion would be anti-diluted include options to purchase ordinary shares of 99,355,769 and preferred shares to be converted into ordinary shares of 323,435,523 for the year ended December 31, 2017 on a weighted average basis. While for the year ended December 31, 2016, the potentially dilutive securities include options to purchase ordinary shares of 87,788,507 and preferred shares to be converted into ordinary shares of 236,861,100.

**15. COLLATERALIZED TRANSACTIONS**

The Operating Company also engages in margin financing transactions with and for clients through margin lending. Client receivables generated from margin lending activity are collateralized by client-owned securities held by the Operating Company. Clients' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Operating Company's policy and as enforced by such systems, clients are required to deposit additional collateral or reduce positions, when necessary to avoid forced liquidation of their positions.

Margin loans are extended to clients on a demand basis and are not committed facilities. Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Operating

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. COLLATERALIZED TRANSACTIONS (Continued)**

Company's collateral policies significantly limits the Operating Company's credit exposure to margin loans in the event of a client's default. As of December 31, 2017 and 2016, approximately HK\$2,865,035 thousand and HK\$126,163 thousand, respectively, of client margin loans were outstanding.

The following table summarizes the amounts related to collateralized transactions as of December 31, 2016 and 2017:

	As of December 31,			
	2016		2017	
	HK\$ in thousands		HK\$ in thousands	
	Permitted to repledge	Repledged	Permitted to repledge	Repledged
Client margin assets	625,061	—	9,211,920	1,299,200

**16. BROKERAGE COMMISSION AND HANDLING CHARGE INCOME**

	Year ended December 31,	
	2016	2017
(HK\$ in thousands)		
Brokerage commission income	30,448	101,275
Handling and settlement fee income	44,050	83,643
Total	<u>74,498</u>	<u>184,918</u>

**17. INTEREST INCOME**

	Year ended December 31,	
	2016	2017
(HK\$ in thousands)		
Interest income from:		
Bank deposits	4,033	34,050
Margin financing and securities lending	1,762	65,489
IPO financing	—	5,470
Bridge loan	—	863
Total	<u>5,795</u>	<u>105,872</u>

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18. OTHER INCOME

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Enterprise public relations service charge income	2,332	6,717
IPO subscription service charge income	484	6,570
Currency exchange service income	2,886	2,954
Client referral income from brokers	846	1,934
Underwriting fee income	2	1,599
Market information and data income	169	311
Other	3	788
Total	<u>6,722</u>	<u>20,873</u>

## 19. BROKERAGE COMMISSION AND HANDLING CHARGE EXPENSES

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Commission, handling and settlement expenses	18,730	35,643
IPO subscription service charge expenses	—	1,134
	<u>18,730</u>	<u>36,777</u>

## 20. INTEREST EXPENSES

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Interest expenses for margin financing		
Borrowings from banks	27	7,189
Borrowings from other licensed financial institutions	2	6,293
Borrowings from other parties	3,430	5,276
Interest expenses for IPO financing		
Borrowings from banks	—	1,121
	<u>3,459</u>	<u>19,879</u>

## 21. PROCESSING AND SERVICING COSTS

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Market information and data fee	14,529	37,482
Data transmission fee	2,129	5,822
Cloud service fee	4,353	7,636
SMS service fee	1,401	1,148
Others	468	358
	<u>22,880</u>	<u>52,446</u>

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. TAXATION**

***Value-added tax (“VAT”)***

During the periods presented, the Group is subject to 6% VAT rate for the income arising from rendering financial technology services to its clients in PRC.

Except that Futu Network Technology (Shenzhen) Co., Ltd. converted from Small-scale VAT Taxpayer to general VAT Taxpayer in April 2016 and was subject to 3% VAT rate for services income during January to March 2016.

The Group is also subject to surcharges on VAT payments according to PRC tax.

***Income Tax***

1) Cayman Islands

The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

2) Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, Installment Hong Kong is subject to 16.5% income tax rate on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

3) China

The Company’s subsidiaries, consolidated VIE and subsidiary of the VIE established in the PRC are subject to statutory income tax at a rate of 25%.

Under the Enterprise Income Tax (“EIT”) Law enacted by the National People’s Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by FIEs in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the “beneficial owner” and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with PRC.

The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22. TAXATION (Continued)

*Income Tax (Continued)*

## 3) China (Continued)

Group's entities organized outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiary registered outside the PRC should be deemed resident enterprises, the Company and its subsidiary registered outside the PRC will be subject to the PRC income tax, at a rate of 25%.

*Composition of income tax (benefit)/expense*

The following table sets forth current and deferred portion of income tax (benefit)/expense:

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Current income tax expense	—	6,286
Deferred income tax (benefit)/expense	(13,276)	5,194
Income tax (benefit)/expense	<u>(13,276)</u>	<u>11,480</u>

*Tax Reconciliation*

Reconciliation between the income tax (benefit)/expenses computed by applying the Hong Kong enterprise tax rate to income before income taxes and actual provision were as follows:

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
(Loss)/income before income tax	(111,747)	3,378
Tax (benefit)/expense at Hong Kong profit tax rate of 16.5%	(18,438)	557
Changes in valuation allowance	2,516	4,464
Tax effect of permanence differences	10,178	7,333
Effect of income tax in jurisdictions other than Hong Kong	(7,528)	(898)
Others	(4)	24
Income tax (benefit)/expense	<u>(13,276)</u>	<u>11,480</u>

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22. TAXATION (Continued)

*Deferred Tax Assets*

Deferred income tax expense reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets are as follows:

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Deferred tax assets		
Net operating loss carryforwards	27,616	29,290
Accrued expenses and others	1,273	—
Less: valuation allowance	(9,050)	(13,514)
Net deferred tax assets	<u>19,839</u>	<u>15,776</u>

*Movement of Valuation Allowance*

	Year ended December 31,	
	2016	2017
	(HK\$ in thousands)	
Balance at beginning of the year	6,534	9,050
Additions	2,516	4,464
Reversals	—	—
Balance at end of the year	<u>9,050</u>	<u>13,514</u>

Valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The statutory rate of 25% or 16.5%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2016 and 2017, the Group had net operating loss carryforwards of approximately HK\$121,557 thousand and HK\$126,473 thousand, respectively, which arose from the subsidiaries, VIE and the VIE's subsidiary established in Hong Kong and PRC. As of December 31, 2016 and 2017, of the net operating loss carryforwards, HK\$39,777 thousand and HK\$65,491 thousand was provided for valuation allowance respectively, while the remaining HK\$81,780 thousand and HK\$60,982 thousand is expected to be utilized prior to expiration considering future taxable income for respective entities. As of December 31, 2017, the net operating loss carryforwards will expire during the period from 2018 to 2022, if unused.

The Company intends to indefinitely reinvest all the undistributed earnings of the Company's VIE and subsidiary of the VIE in China, and does not plan to have any of its PRC subsidiaries to distribute any dividend; therefore no withholding tax is expected to be incurred in the foreseeable future. Accordingly, no income tax is

**FUTU HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. TAXATION (Continued)**

*Movement of Valuation Allowance (Continued)*

accrued on the undistributed earnings of the Company's VIE and subsidiary of the VIE as of December 31, 2016 and 2017. As of December 31, 2016 and 2017, the Group's PRC subsidiaries were still in accumulated deficit position.

*Uncertain Tax Position*

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2016 and 2017. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expense and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2017.

**23. DEFINED CONTRIBUTION PLAN**

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension insurance, medical insurance unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. Total contributions by the Group for such employee benefits were RMB8,494 thousand and RMB12,171 thousand for the year ended December 31, 2016 and 2017, respectively.

For the employees in Hong Kong, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Included in employee compensation and benefits expenses in the consolidated statements of comprehensive loss were HK\$464 thousand and HK\$672 thousand of plan contributions for each of the two years ended December 31, 2016 and 2017, respectively.

**24. REGULATORY REQUIREMENTS**

Subject to the Securities and Futures (Financial Resources) Rules and the Securities and Futures Ordinance, Futu Securities is required to maintain minimum paid-up share capital. Regulatory capital requirements could restrict the Operating Company from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. As of December 31, 2016 and 2017, aggregate excess regulatory capital for the Operating Company was HK\$204,895 thousand and HK\$588,673 thousand respectively. As of December 31, 2017, the regulated Operating Company was in compliance with their respective regulatory capital requirements.

**25. COMMITMENTS AND CONTINGENCIES**

*Operating Leases*

The Group leases office space under non-cancelable operating lease agreements with initial lease term from two years to five years. Rental expense is recognized from the date of initial possession of the leased property on

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****25. COMMITMENTS AND CONTINGENCIES (Continued)*****Operating Leases (Continued)***

a straight-line basis over the term of the lease and charged to earnings. Certain lease agreements contain rent holidays, which are recognized on a straight-line basis over the lease term.

Rental expense calculated for the Group was HK\$6,645 thousand and HK\$10,847 thousand for the year ended December 31, 2016 and 2017, respectively, and is included in research and development expenses, selling and marketing expense and general and administrative expenses in the consolidated statements of comprehensive loss. As of December 31, 2017, the Group's minimum annual lease commitments totaled HK\$23,645 thousand, as follows:

Year	HKS in thousand
2018	9,842
2019	7,704
2020	6,099
	<u>23,645</u>

***Hong Kong Securities and Futures Commission ("HK SFC") Inquiries and Investigations***

The financial services industry is highly regulated. From time to time, the Operating Company as a HK SFC-licensed corporation may be required to assist in and/or are subject to inquiries and/or investigations by relevant regulatory authorities in Hong Kong, such as the HK SFC. As of the date of this report, the Operating Company is involved in ongoing regulatory inquiries and investigations by the HK SFC where a certain conclusion has not been reached. For the years ended 31 December 2016 and 2017, the Group did not make any accrual for the aforementioned loss contingency.

**26. RELATED PARTY BALANCES AND TRANSACTIONS**

The table below sets forth major related parties of the Group and their relationships with the Group:

<u>Entity of individual name</u>	<u>Relationship with the Group</u>
Mr. Leaf Hua Li	Principal shareholder
Tencent Holdings Limited and its subsidiaries("Tencent Group")	Principal shareholder
Individual director	Directors or officers of the Group

The Group utilizes the cloud services provided by Tencent Group to process large amount of complicated data in-house, which reduces the risks involved in data storage and transmission. SMS channel services is provided by Tencent Group, including verification code, notification and marketing message services for the Group to reach its end users. The Group also uses the QQ Wallet and Wechat Wallet platform provided by Tencent Group for cash receipt and payment purpose during daily operation. The Group can withdraw cash balance from the QQ Wallet and Wechat Wallet on demand.

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

## (a) Cash and cash equivalent

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Cash and cash equivalent	411	528

## (b) Amounts Due from Related Parties

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Amount due from Mr. Leaf Hua Li	112	201
Advance to individual directors and officers	894	6,340
	<u>1,006</u>	<u>6,541</u>

The amount due from Mr. Leaf Hua Li is cash advance for business purpose. This advance does not bear any interest and with no fixed maturity. The advances to individual directors and offices are advances granted to Mr. Nineway Jie Zhang, Director of the Company, and Mr. Robin Li Xu, Vice President of the Company, bearing interest rate of 4% with maturity from three months to six months. Such advances do not involve more than the normal risk of collectability or present other unfavorable features.

## (c) Short-term borrowings

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Short-term borrowings	161,179	400,000

## (d) Amounts Due to Related Parties

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Amounts Due to Related Parties		
Cloud services from Tencent Group	5,950	14,269
SMS channel services from Tencent Group	529	418
	<u>6,479</u>	<u>14,687</u>

## (e) Convertible Notes

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Convertible Notes	32,030	—

**FUTU HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)****(f) Transactions with Related Parties**

	As of December 31,	
	2016	2017
	(HK\$ in thousands)	
Cloud service fee	4,353	7,636
SMS channel service fee	1,245	1,148
Interest expenses	3,430	3,457
Total transaction with related parties	<u>9,028</u>	<u>12,241</u>

Included in receivables from and payables to clients in the consolidated balance sheets as of December 31, 2016 and 2017 were accounts receivable from directors and officers of HK\$2 thousand and HK\$1 thousand and payables of HK\$310,163 thousand and HK\$234,124 thousand, respectively. The Operating Company also extends credit to these related parties in connection with margin loans, as of December 31, 2016 and 2017, the margin loans lent to directors and officers amount to HK\$123 thousand and HK\$20,101 thousand, respectively. Such loans are (i) made in the ordinary course of business, (ii) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the company, and (iii) do not involve more than the normal risk of collectability or present other unfavorable features. Revenue earned by providing brokerage services and margin loan to directors and officers amounts to HK\$3,314 thousand and HK\$3,040 thousand for the years ended December 31, 2016 and 2017, respectively.

**27. SUBSEQUENT EVENTS**

The Group evaluated event subsequent to the balance sheet date of December 31, 2017 through October 19, 2018, the date on which the financial statements are issued.

**28. UNAUDITED PRO FORMA INFORMATION**

Pursuant to the Company's memorandum and articles of association, the Company's Preferred Shares and the convertible notes will be automatically converted into ordinary shares upon a QIPO.

Unaudited pro forma shareholders' equity as of December 31, 2017, as adjusted for the reclassification of the related Preferred Shares from mezzanine equity to shareholders' equity is shown in the unaudited pro forma consolidated balance sheets.

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 28. UNAUDITED PRO FORMA INFORMATION (Continued)

Unaudited pro forma basic and diluted net loss per ordinary share reflects the effect of the conversion of Preferred Shares and convertible notes as follows, as if the conversion occurred as of the beginning of the period or the original date of issuance, if later.

	Year Ended December 31, 2017 (HK\$ in thousands, except share and per share data)
<b>Numerator:</b>	
Net loss attributable to ordinary shareholders	(55,817)
Preferred shares redemption value accretion reversed	47,715
Interest expenses and amortized issuance cost of convertible notes reversed	464
Numerator for pro forma basic and diluted net loss per share	<u>(7,638)</u>
<b>Denominator:</b>	
Weighted average number of ordinary shares used in calculating pro forma basic and diluted net loss per share	<u>727,185,523</u>
Pro forma basic and diluted net loss per share	<u>(0.01)</u>

## 29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The condensed financial information of the Company has been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04, using the same accounting policies as set out in the Group's consolidated financial statements.

The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements are not the general purpose financial statements of the reporting entity and should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have significant capital and other commitments or guarantees as of December 31, 2017.

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

## Condensed Balance Sheets (In thousands, except share and per share data)

	As of December 31,		
	2016	2017	2017
	(HK\$ in thousands)		US\$
<b>ASSETS</b>			
Cash and cash equivalents	29,833	8,246	1,054
Investments in subsidiaries, VIE and VIE's subsidiary	279,448	764,627	97,705
Other assets	184,996	755,342	96,518
<b>Total assets</b>	<b>494,277</b>	<b>1,528,215</b>	<b>195,277</b>
<b>LIABILITIES</b>			
Interest payable	1,480	502	64
Short-term borrowings	150,000	400,000	51,112
Convertible notes	32,030	—	—
Accrued expenses and other liabilities	356	497	64
<b>Total liabilities</b>	<b>183,866</b>	<b>400,999</b>	<b>51,240</b>

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

Condensed Balance Sheets (In thousands, except share and per share data)

	As of December 31,		
	2016 HK\$	2017 HK\$	2017 US\$
<b>MEZZANINE EQUITY</b>			
Series A convertible redeemable preferred shares (US\$0.00001 of par value per share; 125,000,000 and 125,000,000 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively)	61,506	64,780	8,278
Series A-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; 23,437,500 and 23,437,500 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively)	13,180	13,881	1,774
Series B convertible redeemable preferred shares (US\$0.00001 of par value per share; 88,423,500 and 88,423,500 shares authorized, issued and outstanding as of December 31, 2016 and 2017, respectively)	254,489	268,520	34,312
Series C convertible redeemable preferred shares (US\$0.00001 of par value per share; nil share authorized, issued and outstanding as of December 31, 2016; and 128,844,812 shares authorized, issued and outstanding as of December 31, 2017)	—	734,872	93,903
Series C-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; nil share authorized, issued and outstanding as of December 31, 2016; and 12,225,282 shares authorized, issued and outstanding as of December 31, 2017)	—	101,422	12,959
<b>Total mezzanine equity</b>	<b>329,175</b>	<b>1,183,475</b>	<b>151,226</b>
<b>SHAREHOLDERS' DEFICIT</b>			
Ordinary shares (US\$0.00001 par value; 4,763,139,000 and 4,622,068,906 shares authorized as of December 31, 2016 and 2017, respectively; 403,750,000 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	31	31	4
Accumulated other comprehensive income	107	7,864	1,005
Accumulated deficit	(18,902)	(64,154)	(8,198)
<b>Total shareholders' deficit</b>	<b>(18,764)</b>	<b>(56,259)</b>	<b>(7,189)</b>
<b>Total liabilities, mezzanine equity and shareholders' deficit</b>	<b>494,277</b>	<b>1,528,215</b>	<b>195,277</b>

## FUTU HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

Condensed Statements of Comprehensive (Loss)/Income (In thousands, except share and per share data)

	Year ended December 31,		
	2016	2017	2017
	HKS	HKS	US\$
<b>Costs</b>			
Interest expenses	(2,387)	(5,015)	(641)
<b>Total costs</b>	<u>(2,387)</u>	<u>(5,015)</u>	<u>(641)</u>
<b>Total gross profit</b>	<u>(2,387)</u>	<u>(5,015)</u>	<u>(641)</u>
<b>Operating expenses</b>			
General and administrative expenses	(230)	(1,693)	(216)
<b>Total operating expenses</b>	<u>(230)</u>	<u>(1,693)</u>	<u>(216)</u>
Others, net	—	(598)	(76)
<b>Loss before income tax</b>	<u>(2,617)</u>	<u>(7,306)</u>	<u>(933)</u>
Income tax expense	—	—	—
<b>Net loss</b>	<u>(2,617)</u>	<u>(7,306)</u>	<u>(933)</u>
Preferred shares redemption value accretion	(17,929)	(47,715)	(6,097)
<b>Net loss attributable to ordinary shareholder of the Company</b>	<u>(20,546)</u>	<u>(55,021)</u>	<u>(7,030)</u>
<b>Net loss</b>	(2,617)	(7,306)	(933)
<b>Other comprehensive income, net of tax</b>			
Foreign currency translation adjustment	139	7,757	991
<b>Total comprehensive (loss)/income</b>	<u>(2,478)</u>	<u>451</u>	<u>58</u>

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

Condensed Statements of changes in shareholders' deficit  
(In thousands, except share and per share data)

	Share capital		Additional paid-in capital	Accumulated other comprehensive (loss)/ income	Accumulated deficit	Total equity
	Number of Shares	Amount				
<b>As of January 1, 2016</b>	<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>(32)</b>	<b>(7,511)</b>	<b>(7,512)</b>
Loss for the year	—	—	—	—	(2,617)	(2,617)
Share-based compensation	—	—	9,155	—	—	9,155
Preferred shares redemption value accretion	—	—	(9,155)	—	(8,774)	(17,929)
Foreign currency translation adjustment, net of tax	—	—	—	139	—	139
<b>Balance at December 31, 2016</b>	<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>107</b>	<b>(18,902)</b>	<b>(18,764)</b>
<b>As of January 1, 2017</b>	<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>107</b>	<b>(18,902)</b>	<b>(18,764)</b>
Loss for the year	—	—	—	—	(7,306)	(7,306)
Share-based compensation	—	—	9,769	—	—	9,769
Preferred shares redemption value accretion	—	—	(9,769)	—	(37,946)	(47,715)
Foreign currency translation adjustment, net of tax	—	—	—	7,757	—	7,757
<b>Balance at December 31, 2017</b>	<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>7,864</b>	<b>(64,154)</b>	<b>(56,259)</b>

FUTU HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

Condensed Statements of Cash Flows (In thousands)

	For the Year Ended December 31,		
	2016	2017	2017
	HK\$	HK\$	US\$
<b>Cash flows from operating activities</b>			
Net loss	(2,617)	(7,306)	(933)
Adjustments for:			
Depreciation and amortization	120	120	15
<b>Changes in operating assets:</b>			
Net increase in other assets	(93,011)	(560,695)	(71,646)
<b>Changes in operating liabilities:</b>			
Net increase in interest payable	1,480	3,556	454
Net increase in other liabilities	105	141	18
<b>Net cash used in operating activities</b>	<u>(93,923)</u>	<u>(564,184)</u>	<u>(72,092)</u>
<b>Cash flows from investing activities</b>			
Investment to subsidiaries	(166,548)	(478,028)	(61,083)
<b>Net cash used in investing activities</b>	<u>(166,548)</u>	<u>(478,028)</u>	<u>(61,083)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of Series C preferred shares and Series C-1 preferred shares	—	620,625	79,304
Proceeds from short-term borrowings	150,000	700,000	89,447
Repayment of short-term borrowings	—	(300,000)	(38,334)
<b>Net cash generated from financing activities</b>	<u>150,000</u>	<u>1,020,625</u>	<u>130,417</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(110,471)</u>	<u>(21,587)</u>	<u>(2,758)</u>
Cash and cash equivalents at beginning of the year	140,304	29,833	3,812
<b>Cash and cash equivalents at end of the year</b>	<u>29,833</u>	<u>8,246</u>	<u>1,054</u>
<b>Non-cash financing activities</b>			
Accretion to preferred shares redemption value	17,929	47,715	6,097
Issuance of Series C preferred shares from conversion of the convertible notes	—	32,345	4,133
Issuance of Series C preferred shares from repayment of short-term borrowing	—	153,896	19,665
<b>Supplemental Disclosure</b>			
Interest paid	(907)	(5,993)	(766)

**Basis of presentation**

The Company's accounting policies are the same as the Group's accounting policies.

**FUTU HOLDINGS LIMITED**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except for share and per share data)

	Note	As of			Pro Forma As of (Note 27)	
		December 31, 2017	September 30, 2018		September 30, 2018	
		HK\$	HK\$	US\$	HK\$	US\$
<b>ASSETS</b>						
Cash and cash equivalents		375,263	272,371	34,804	272,371	34,804
Cash held on behalf of clients		7,176,579	11,004,151	1,406,120	11,004,151	1,406,120
Available-for-sale financial securities		—	17,046	2,178	17,046	2,178
Amounts due from related parties	25(b)	6,541	11,270	1,440	11,270	1,440
Loans and advances	4	2,907,967	3,800,814	485,671	3,800,814	485,671
Receivables:						
Clients		218,960	160,967	20,568	160,967	20,568
Brokers		106,078	486,208	62,128	486,208	62,128
Clearing organization		55,892	5,600	716	5,600	716
Interest		7,041	32,267	4,124	32,267	4,124
Prepaid assets		3,646	11,496	1,469	11,496	1,469
Other assets	7	65,918	64,949	8,300	64,949	8,300
<b>Total assets</b>		<b>10,923,885</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>
<b>LIABILITIES</b>						
Amounts due to related parties	25(d)	14,687	4,185	535	4,185	535
Payables:						
Clients		7,340,823	11,433,670	1,461,004	11,433,670	1,461,004
Brokers		929,692	1,362,343	174,081	1,362,343	174,081
Clearing organization		82,878	5,771	737	5,771	737
Interest		2,066	5,510	705	5,510	705
Short-term borrowings	8	1,542,448	1,907,837	243,785	1,907,837	243,785
Accrued expenses and other liabilities	9	60,717	94,566	12,084	94,566	12,084
<b>Total liabilities</b>		<b>9,973,311</b>	<b>14,813,882</b>	<b>1,892,931</b>	<b>14,813,882</b>	<b>1,892,931</b>

**Commitments and contingencies**  
(Note 24)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**FUTU HOLDINGS LIMITED**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)**

(In thousands, except for share and per share data)

	Note	As of			Pro Forma As of (Note 27)	
		December 31, 2017	September 30, 2018		September 30, 2018	
		HKS	HKS	US\$	HKS	US\$
<b>MEZZANINE EQUITY</b>	11					
Series A convertible redeemable preferred shares (US\$0.00001 of par value per share; 125,000,000 and 125,000,000 shares authorized, issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; no shares issued and outstanding, pro forma)		64,780	67,250	8,593	—	—
Series A-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; 23,437,500 and 23,437,500 shares authorized, issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; no shares issued and outstanding, pro forma)		13,881	14,411	1,841	—	—
Series B convertible redeemable preferred shares (US\$0.00001 of par value per share; 88,423,500 and 88,423,500 shares authorized, issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; no shares issued and outstanding, pro forma)		268,520	279,102	35,664	—	—
Series C convertible redeemable preferred shares (US\$0.00001 of par value per share; 128,844,812 and 128,844,812 shares authorized, issued and outstanding as of December 31, 2017 and September 30, 2018; no shares issued and outstanding, pro forma)		734,872	767,101	98,021	—	—
Series C-1 convertible redeemable preferred shares (US\$0.00001 of par value per share; 12,225,282 and 12,225,282 shares authorized, issued and outstanding as of December 31, 2017 and September 30, 2018; no shares issued and outstanding, pro forma)		101,422	105,870	13,529	—	—
<b>Total mezzanine equity</b>		<b>1,183,475</b>	<b>1,233,734</b>	<b>157,648</b>	<b>—</b>	<b>—</b>

FUTU HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(In thousands, except for share and per share data)

	Note	As of			Pro Forma As of (Note 27)	
		December 31, 2017	September 30, 2018		September 30, 2018	
		HK\$	HK\$	US\$	HK\$	US\$
<b>SHAREHOLDERS' (DEFICIT)/EQUITY</b>						
Ordinary shares (US\$0.00001 par value; 4,622,068,906 and 4,622,068,906 shares authorized as of December 31, 2017 and September 30, 2018, respectively; 403,750,000 and 403,750,000 shares issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; nil shares issued and outstanding on a pro forma basis as of September 30, 2018)	10	31	31	4	—	—
Class A ordinary shares (US\$0.00001 par value; 48,700,000,000 shares authorized; nil and nil shares issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; 237,129,043 shares issued and outstanding on a pro forma basis as of September 30, 2018)		—	—	—	15	2
Class B ordinary shares (US\$0.00001 par value; 800,000,000 shares authorized; nil and nil shares issued and outstanding as of December 31, 2017 and September 30, 2018, respectively; 544,552,051 shares issued and outstanding on a pro forma basis as of September 30, 2018)		—	—	—	46	6
Additional paid-in capital		—	—	—	1,233,704	157,644
Accumulated other comprehensive loss		(2,053)	(6,952)	(888)	(6,952)	(888)
Accumulated deficit		(230,879)	(173,556)	(22,177)	(173,556)	(22,177)
<b>Total shareholders' (deficit)/equity</b>		<b>(232,901)</b>	<b>(180,477)</b>	<b>(23,061)</b>	<b>1,053,257</b>	<b>134,587</b>
<b>Total liabilities, mezzanine equity and shareholders' (deficit)/equity</b>		<b>10,923,885</b>	<b>15,867,139</b>	<b>2,027,518</b>	<b>15,867,139</b>	<b>2,027,518</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

(In thousands, except for share and per share data)

	Note	For the Nine Months Ended September 30,		
		2017	2018	2018
		HKS	HKS	US\$
<b>Revenues</b>				
Brokerage commission and handling charge income	15	114,427	294,662	37,652
Interest income	16	51,998	257,737	32,934
Other income	17	11,942	31,768	4,059
<b>Total revenues</b>		<b>178,367</b>	<b>584,167</b>	<b>74,645</b>
<b>Costs</b>				
Brokerage commission and handling charge expenses	18	(22,554)	(59,614)	(7,618)
Interest expenses	19	(6,930)	(73,176)	(9,350)
Processing and servicing costs	20	(39,490)	(52,549)	(6,715)
<b>Total costs</b>		<b>(68,974)</b>	<b>(185,339)</b>	<b>(23,683)</b>
<b>Total gross profit</b>		<b>109,393</b>	<b>398,828</b>	<b>50,962</b>
<b>Operating expenses</b>				
Research and development expenses		(69,406)	(105,657)	(13,501)
Selling and marketing expenses		(30,243)	(73,671)	(9,414)
General and administrative expenses		(42,059)	(73,268)	(9,362)
<b>Total operating expenses</b>		<b>(141,708)</b>	<b>(252,596)</b>	<b>(32,277)</b>
Others, net		(2,975)	(6,012)	(768)
<b>(Loss)/income before income tax expense</b>		<b>(35,290)</b>	<b>140,220</b>	<b>17,917</b>
Income tax expense	21	(2,702)	(39,882)	(5,096)
<b>Net (loss)/income</b>		<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
Preferred shares redemption value accretion		(31,012)	(50,258)	(6,422)
Income allocation to participating preferred shareholders		—	(24,213)	(3,094)
<b>Net (loss)/income attributable to ordinary shareholder of the Company</b>		<b>(69,004)</b>	<b>25,867</b>	<b>3,305</b>
<b>Net (loss)/income</b>		<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
<b>Other comprehensive (loss)/income, net of tax</b>				
Foreign currency translation adjustment		6,616	(4,899)	(626)
<b>Total comprehensive (loss)/income</b>		<b>(31,376)</b>	<b>95,439</b>	<b>12,195</b>
<b>Net (loss)/income per share attributable to ordinary shareholder of the Company</b>				
Basic	13	(0.17)	0.06	0.008
Diluted		(0.17)	0.05	0.006
<b>Weighted average number of ordinary shares used in computing net (loss)/income per share</b>				
Basic	13	403,750,000	403,750,000	403,750,000
Diluted		403,750,000	508,682,862	508,682,862

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT

(In thousands, except for share and per share data)

	Note	Share capital		Additional paid-in capital	Accumulated other comprehensive (loss)/income	Accumulated deficit	Total equity
		Number of Shares	Amount				
<b>As of January 1, 2017</b>		<b>403,750,000</b>	<b>31</b>	<b>2,500</b>	<b>(5,419)</b>	<b>(187,331)</b>	<b>(190,219)</b>
Loss for the period		—	—	—	—	(37,992)	(37,992)
Share-based compensation	12	—	—	7,402	—	—	7,402
Preferred shares redemption value accretion		—	—	(9,902)	—	(21,110)	(31,012)
Foreign currency translation adjustment, net of tax		—	—	—	6,616	—	6,616
<b>Balance at September 30, 2017</b>		<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>1,197</b>	<b>(246,433)</b>	<b>(245,205)</b>
<b>As of January 1, 2018</b>		<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>(2,053)</b>	<b>(230,879)</b>	<b>(232,901)</b>
Profit for the period		—	—	—	—	100,338	100,338
Share-based compensation	12	—	—	7,243	—	—	7,243
Preferred shares redemption value accretion		—	—	(7,243)	—	(43,015)	(50,258)
Foreign currency translation adjustment, net of tax		—	—	—	(4,899)	—	(4,899)
<b>Balance at September 30, 2018</b>		<b>403,750,000</b>	<b>31</b>	<b>—</b>	<b>(6,952)</b>	<b>(173,556)</b>	<b>(180,477)</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**FUTU HOLDINGS LIMITED**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Note	For the Nine Months Ended September 30,		
		2017	2018	2018
		HK\$	HK\$	US\$
<b>Cash flows from operating activities</b>				
<b>Net (loss)/income</b>		<b>(37,992)</b>	<b>100,338</b>	<b>12,821</b>
Adjustments for:				
Depreciation and amortization		3,144	5,568	711
Foreign exchange (losses)/gains		(18,067)	1,350	173
Share-based compensation expenses	12	7,402	7,243	926
Interest income from available-for-sale financial securities		(12)	(39)	(5)
<b>Changes in operating assets:</b>				
Net increase in amounts due from related parties		(3,703)	(4,729)	(604)
Net increase in loans and advances		(1,755,277)	(892,847)	(114,089)
Net decrease/(increase) in accounts receivable from clients and brokers		390,700	(322,137)	(41,163)
Net (increase)/decrease in accounts receivable from clearing organization		(19,823)	50,292	6,426
Net increase in interest receivable		(7,972)	(25,226)	(3,223)
Net decrease/(increase) in prepaid assets		190	(7,850)	(1,003)
Net decrease in other assets		145,086	8,659	1,108
<b>Changes in operating liabilities:</b>				
Net increase/(decrease) in amounts due to related parties		5,612	(10,502)	(1,342)
Net increase in accounts payable to clients and brokers		2,832,219	4,525,498	578,272
Net increase/(decrease) in accounts payable to clearing organization		122,976	(77,107)	(9,853)
Net increase in payroll and welfare payables		9,694	5,496	702
Net (decrease)/increase in interest payables		(2,267)	3,444	440
Net (decrease)/increase in other liabilities		(151,406)	28,354	3,623
<b>Net cash generated from operating activities</b>		<b><u>1,520,504</u></b>	<b><u>3,395,805</u></b>	<b><u>433,920</u></b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property and equipment and intangible assets		1	—	—
Purchase of property and equipment and intangible assets		(6,689)	(13,709)	(1,752)
Net proceeds from disposal/(purchase) of available-for-sale financial securities		2,236	(17,046)	(2,178)
Interest received from available-for-sale financial securities		12	39	5
<b>Net cash used in investing activities</b>		<b><u>(4,440)</u></b>	<b><u>(30,716)</u></b>	<b><u>(3,925)</u></b>

FUTU HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In thousands)

	Note	For the Nine Months Ended September 30,		
		2017	2018	2018
		HK\$	HK\$	US\$
<b>Cash flows from financing activities</b>				
Proceeds from issuance of Series C preferred shares and Series C-1 preferred shares		620,625	—	—
Proceeds from short-term borrowings		533,700	4,445,323	568,027
Repayment of short-term borrowings		(38,119)	(4,084,382)	(521,906)
<b>Net cash generated from financing activities</b>		<b>1,116,206</b>	<b>360,941</b>	<b>46,121</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>		<b>18,067</b>	<b>(1,350)</b>	<b>(173)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>		<b>2,650,337</b>	<b>3,724,680</b>	<b>475,943</b>
Cash, cash equivalents and restricted cash at beginning of the period		3,524,188	7,551,842	964,981
<b>Cash, cash equivalents and restricted cash at end of the period</b>		<b>6,174,525</b>	<b>11,276,522</b>	<b>1,440,924</b>
<b>Cash, cash equivalents and restricted cash</b>				
Cash and cash equivalents		240,768	272,371	34,804
Cash held on behalf of clients		5,933,757	11,004,151	1,406,120
<b>Cash, cash equivalents and restricted cash at end of the period</b>		<b>6,174,525</b>	<b>11,276,522</b>	<b>1,440,924</b>
<b>Non-cash financing activities</b>				
Accretion to preferred shares redemption value		31,012	50,258	6,422
Issuance of Series C preferred shares from conversion of the convertible notes		32,345	—	—
Issuance of Series C preferred shares from repayment of short-term borrowings		153,896	—	—
<b>Supplemental disclosure</b>				
Interest paid		(9,197)	(69,732)	(8,910)
Income tax paid		(4,554)	(10,687)	(1,366)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Futu Holdings Limited (the “Company”) is an investment holding company incorporated in the Cayman Islands with limited liability and conducts its business mainly through its subsidiaries, variable interest entity (“VIE”) and subsidiary of the VIE (collectively referred to as the “Group”). The Group principally engages in online financial services and provides financial transaction services including securities brokerage and margin financing based on independently developed software and websites like “Futu NiuNiu” mobile app. The Group also provides financial information and online community services, etc.

As of September 30, 2018, the Company’s principal subsidiaries, consolidated VIE and subsidiary of VIE are as follows:

<b>Subsidiaries</b>	<b>Date of Incorporation/ Establishment</b>	<b>Place of Incorporation/ Establishment</b>	<b>Percentage of Direct or Indirect Economic Interest</b>	<b>Principal Activities</b>
Futu Securities International (Hong Kong) Limited (“Futu Securities” or the “Operating Company”)	April 17, 2012	Hong Kong	100%	Financial services
Futu Securities (Hong Kong) Limited	May 2, 2014	Hong Kong	100%	Investment holding
Futu Network Technology Limited	May 17, 2015	Hong Kong	100%	Research and development and technology services
Futu Network Technology (Shenzhen) Co., Ltd.	October 14, 2015	Shenzhen, PRC	100%	Research and development and technology services
Shen Si Network Technology (Beijing) Co., Ltd. (“Shen Si”)	September 15, 2014	Beijing, PRC	100%	No substantial business
<b>VIE</b>				
Shenzhen Futu Network Technology Co., Ltd.(1) (“Shenzhen Futu”)	December 18, 2007	Shenzhen, PRC	100%	Research and development and technology services
<b>Subsidiary of the VIE</b>				
Beijing Futu Network Technology Co., Ltd.	April 4, 2014	Beijing, PRC	100%	No substantial business

Note:

- (1) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of the Company and hold 81% and 7.5% equity interest in Shenzhen Futu, respectively. Mr. Leaf Hua Li is the founder, chairman and chief executive officer of the Company, and Ms. Lei Li is Mr. Leaf Hua Li’s spouse. Subsequently, other nominal shareholders withdrew their shares from Shenzhen Futu and Mr. Leaf Hua Li and Ms. Lei Li increased their

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)**

shareholding. On October 25, 2018, Mr. Leaf Hua Li and Ms. Lei Li held 85% and 15% equity interest in Shenzhen Futu, respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation***

The accompanying unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes normally included in the annual financial statements prepared in accordance with U.S. GAAP. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted consistent with Article 10 of Regulation S-X. In the opinion of management, the Group’s unaudited interim condensed consolidated financial statements and accompanying notes include all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of the Group’s financial position as of December 31, 2017 and September 30, 2018, and results of operations and cash flows for the nine months ended September 30, 2017 and 2018. Interim results of operations are not necessarily indicative of the results for the full year or for any future period. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2017, and related notes included in the Group’s audited consolidated financial statements. The financial information as of December 31, 2017 presented in the unaudited interim condensed consolidated financial statements is derived from the audited consolidated financial statements as of December 31, 2017.

Significant accounting policies followed by the Group in the preparation of the accompanying unaudited interim condensed consolidated financial statements are summarized below.

***Basis of Consolidation***

The unaudited interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIE and subsidiary of the VIE for which the Company or its subsidiary is the primary beneficiary.

A Subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has the power to direct the activities that most significantly impact the entity’s economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the VIE and subsidiary of the VIE have been eliminated upon consolidation.

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*VIE Companies*

1) Contractual Agreements with VIE

The following is a summary of the contractual agreements (collectively, “Contractual Agreements”) between the Company’s PRC subsidiary, Shen Si, and the VIE, Shenzhen Futu. Through the Contractual Agreements, the VIE is effectively controlled by the Company.

**Shareholders’ Voting Rights Proxy Agreements.** Pursuant to the Shareholders’ Voting Rights Proxy Agreements, each shareholder of Shenzhen Futu irrevocably authorized Shen Si or any person(s) designated by Shen Si to exercise such shareholder’s rights in Shenzhen Futu, including without limitation, the power to participate in and vote at shareholder’s meetings, the power to nominate and appoint the directors, senior management, and other shareholders’ voting right permitted by the Articles of Association of Shenzhen Futu. The shareholders’ voting rights proxy agreement remains irrevocable and continuously valid from the date of execution until the expiration of the business term of Shen Si and can be renewed upon request by Shen Si.

**Business Operation Agreement.** Pursuant to the Business Operation Agreement, Shenzhen Futu and its shareholders undertake that without Shen Si’s prior written consent, Shenzhen Futu shall not enter into any transactions that may have a material effect on Shenzhen Futu’s assets, business, personnel, obligations, rights or business operations. Shenzhen Futu and its shareholders shall elect directors nominated by Shen Si and such directors shall nominate officers designated by Shen Si. The business operation agreement will remain effective until the end of Shen Si’s business term, which will be extended if Shen Si’s business term is extended.

**Equity Interest Pledge Agreements.** Pursuant to the Equity Interest Pledge Agreements, each shareholder of Shenzhen Futu agrees that, during the term of the Equity Interest Pledge Agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Shen Si. The Equity Interest Pledge Agreements remain effective until the latter of the full payment of all secured debt under the equity interest pledge agreements and Shenzhen Futu and its shareholders discharge all their obligations under the contractual arrangements.

**Exclusive Technology Consulting and Services Agreement.** Under the Exclusive Technology and Consulting and Services Agreement between Shen Si and Shenzhen Futu, Shen Si has the exclusive right to provide Shenzhen Futu with technology consulting and services related to, among other things, technology research and development, technology application and implementation, maintenance of software and hardware. Without Shen Si’s written consent, Shenzhen Futu shall not accept any technology consulting and services covered by this agreement from any third party. Shenzhen Futu agrees to pay a service fee at an amount equivalent to all of its net profit to Shen Si. Unless otherwise terminated in accordance with the terms of this agreement or otherwise agreed by Shen Si, this agreement will remain effective until the expiration of Shen Si’s business term, and will be renewed if Shen Si’s business term is extended.

**Exclusive Option Agreement.** Pursuant to the Exclusive Option Agreement, each shareholder of Shenzhen Futu has irrevocably granted Shen Si an exclusive option, to the extent permitted by PRC laws, to purchase, or have its designated person or persons to purchase, at its discretion, all or part of the shareholder’s equity interests in Shenzhen Futu. Unless PRC laws and/or regulations require valuation of the equity interests, the purchase price shall be RMB1.00 or the lowest price permitted by the applicable PRC laws, whoever is higher. Each shareholder of Shenzhen Futu undertakes that, without the prior written consent of Shen Si, he or she will not, among other things, (i) create any pledge or encumbrance on his or her equity interests in Shenzhen Futu, (ii) transfer or otherwise dispose of his or her equity interests in Shenzhen Futu, (iii) change Shenzhen Futu’s

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*VIE Companies (Continued)*

## 1) Contractual Agreements with VIE (Continued)

registered capital, (iv) amend Shenzhen Futu's articles of association, (v) liquidate or dissolve Shenzhen Futu, or (vi) distribute dividends to the shareholders of Shenzhen Futu. In addition, Shenzhen Futu undertakes that, without the prior written consent of Shen Si, it will not, among other things, dispose of Shenzhen Futu's material assets, provide any loans to any third parties, enter into any material contract with a value of more than RMB500,000, or create any pledge or encumbrance on any of its assets, or transfer or otherwise dispose of its material assets. Unless otherwise terminated by Shen Si, this agreement will remain effective until the expiration of Shen Si's business term, and will be renewed if Shen Si's business term is extended.

## 2) Risks in relation to the VIE structure

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the VIE and its subsidiary taken as a whole, which were included in the Group's unaudited interim condensed consolidated financial statements with intercompany balances and transactions eliminated:

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Total assets	24,656	47,508
Total liabilities	65,185	66,472
	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Total operating revenue	37,678	56,736
Net income	13,747	20,598
	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Net cash (used in)/generated from operating activities	(4,430)	3,365
Net (decrease)/increase in cash and cash equivalents	(4,430)	3,365
Cash and cash equivalents at beginning of the period	4,699	86
Cash and cash equivalents at end of the period	269	3,451

Under the Contractual Agreements with the VIE, the Company has the power to direct activities of the VIE and VIE's subsidiaries, and can have assets transferred out of the VIE and VIE's subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIE and there is no asset of the VIE that can

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*VIE Companies (Continued)*

2) Risks in relation to the VIE structure (Continued)

only be used to settle obligations of the VIE and VIE's subsidiaries, except for registered capital of the VIE and their subsidiaries amounting to RMB10 million as of December 31, 2017 and September 30, 2018, respectively. Since the VIE are incorporated as limited liability companies under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Company. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIE. However, as the Company is conducting certain businesses through its VIE and VIE's subsidiary, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

In the opinion of the Company's management, the contractual arrangements among its subsidiary, the VIE and its respective Nominee Shareholders are in compliance with current PRC laws and are legally binding and enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIE and VIE's subsidiary in the unaudited interim condensed consolidated financial statements.

In January 2015, the Ministry of Commerce ("MOFCOM"), released for public comment a proposed PRC law, the Draft Foreign Investment Enterprises ("FIE") Law, that appears to include VIE within the scope of entities that could be considered to be FIEs, that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control". If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to include the Group's contractual arrangements with its VIE, and as a result, the Group's VIE could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of FIEs where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIE, that operates in restricted or prohibited industries and is not controlled by entities organized under PRC law or individuals who are PRC citizens. If the restrictions and prohibitions on FIEs included in the Draft FIE Law are enacted and enforced in their current form, the Group's ability to use the contractual arrangements with its VIE and the Group's ability to conduct business through the VIE could be severely limited.

The Company's ability to control the VIE also depends on the power of attorney Shen Si has to vote on all matters requiring shareholders' approvals in the VIE. As noted above, the Company believes these power of attorney are legally binding and enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure or the contractual arrangements with the VIE were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group's right to collect revenues;

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*VIE Companies (Continued)*

2) Risks in relation to the VIE structure (Continued)

- block the Group's websites;
- require the Group to restructure its operations, re-apply for the necessary licenses or relocate the Group's businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of these restrictions or actions may result in a material adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIE or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIE. In the opinion of management, the likelihood of losing the benefits in respect of the Group's current ownership structure or the contractual arrangements with its VIE is remote.

*Use of Estimates*

The preparation of the unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenue, cost and expenses during the reported period in the unaudited interim condensed consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's unaudited interim condensed consolidated financial statements mainly include, but are not limited to, assessment of whether the Group acts as a principal or an agent in different revenue streams, the determination of estimated selling prices of multiple element revenue contracts, the estimation of selling and marketing expense from incentive program, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, assessment for impairment of loans and advances, provision of income tax and valuation allowance for deferred tax asset as well as determination of the fair value of preferred shares and ordinary shares. Actual results could differ from those estimates.

*Comprehensive Income and Foreign Currency Translation*

The Group's operating results are reported in the unaudited interim condensed consolidated statements of comprehensive (loss)/income pursuant to FASB ASC Topic 220, "Comprehensive Income". Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). The Group's OCI is comprised of gains and losses resulting from translating foreign currency financial statements of entities, of which functional currency is other than Hong Kong dollar which is the presentational currency of the Group, net of related income taxes, where applicable. Such subsidiaries' assets and liabilities are translated into Hong Kong dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency to the Hong Kong dollar (as described above) are reported net of tax, where applicable, in accumulated OCI in the unaudited interim condensed consolidated balance sheets.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Convenience Translation***

Translations of balances in the unaudited interim condensed consolidated balance sheets, unaudited interim condensed consolidated statements of comprehensive (loss)/income and unaudited interim condensed consolidated statements of cash flows from HK\$ into US\$ as of and for the period ended September 30, 2018 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=HK\$7.8259, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on September 28, 2018. No representation is made that the HK\$ amounts could have been, or could be, converted, realized or settled into US\$ at that rate on September 28, 2018, or at any other rate.

***Loans and advances***

Loans and advances include margin loans and Initial Public Offering (“IPO”) loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for doubtful accounts.

The Operating Company monitors margin levels of margin loans and requires clients to deposit additional collateral to meet minimum collateral requirements if the fair value of the collateral reduced. Clients with margin loans have agreed to allow the Operating Company to pledge collateralized securities. Securities owned by clients, including those that collateralize margin loans or other similar transactions, are not reported in the unaudited interim condensed consolidated balance sheets. The impairment provision is recognized when the fair value of collaterals fall under the carrying amount of margin loans. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

IPO loans for subscription of new shares are normally settled within one week from the drawdown date. Once IPO stocks are allotted, the Operating Company requires clients to repay the IPO loans. Force liquidation action would be taken if the clients fail to settle their shortfall after the IPO allotment result is announced. There were no outstanding IPO loan balances as of December 31, 2017 and September 30, 2018. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

Other advances consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral. The allowance for doubtful accounts for clients and related activity was immaterial for the period presented.

Loans and advances are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortized cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the surplus or deficit using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

***Available-for-sale financial securities***

Available-for-sale financial securities include debt securities and are measured at fair value. Debt securities in this category are wealth management products with a variable interest rate indexed to investment horizon, principal amounting to HK\$17,046 thousand and nil as of September 30, 2018 and December 31, 2017 respectively. The wealth management product is issued by China Merchant Bank Co., Ltd. which can be redeemed at designated date set by the product manual.

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Available-for-sale financial securities (Continued)*

The Group didn't identify any sign for the available-for-sale debt securities to impair.

*Trading Receivables from and Payables to Clients*

Trading receivables from and payables to clients include amounts due on brokerage transactions on a trade-date basis.

*Receivables from and Payables to Brokers and Clearing Organization*

Receivables from and payables to brokers and clearing organization include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities not delivered by the Operating Company to the purchaser by the settlement date and cash deposits, and amounts payable for securities not received by the Operating Company from a seller by the settlement date.

Clearing settlement fund deposited in the clearing organization for the clearing purpose is recognized in receivables from clearing organization.

The Operating Company borrowed margin loan from executing brokers in the United States, with the amount of HK\$920,206 thousand and HK\$1,449,568 thousand as of December 31, 2017 and September 30, 2018, respectively, and with the benchmark interest rate plus premium differentiated depending on the trading volume, and immediately lent to margin financing clients. Margin loan borrowed is recognized in the payables to brokers.

*Interest Receivable and Payable*

Interest receivable is calculated based on the contractual interest rate of bank deposit, loans and advances on an accrual basis, and is recorded as interest income as earned.

Interest payable is calculated based on the contractual interest rates of short-term borrowings on an accrual basis.

*Securities Borrowing and Lending Transactions*

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received plus accrued interest. Securities borrowing transactions require the Operating Company to deposit cash with the lender whereas securities loaned result in the Operating Company receiving collateral in the form of cash from clients, with both requiring cash in an amount generally in excess of certain percentage of the market value of the equity securities, depending on the quality of the equity securities. Securities lending transactions have overnight or continuous remaining contractual maturities.

Securities lending transactions expose the Operating Company to counterparty credit risk and market risk. To manage the counterparty risk, the Operating Company maintains internal risk management policies, holds regular management meetings for approving counterparties, reviews and analyzes the adequacy of pledged cash

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Securities Borrowing and Lending Transactions (Continued)***

collateral of each counterparty, and monitors its positions with each counterparty on an ongoing basis. The Operating Company monitors the market value of the securities borrowed and loaned using collateral arrangements that require additional cash collateral to be obtained from counterparties based on changes in market value to maintain specified collateral levels. During the track record period, the securities borrowed from the lender would be immediately lent to clients. Since the length of time that the Operating Company would hold the securities is minimal, the market risk is insignificant.

***Revenue Recognition***

1) Brokerage commission and handling charge income

Brokerage commission income earned for executing and/or clearing transactions are accrued on a trade-date basis.

Handling charge income arise from the services such as settlement services, subscription and dividend collection handling services, etc, are accrued on a trade-date basis.

2) Interest Income

The Group earns interest income primarily in connection with its margin financing and securities lending services, IPO financing and deposits with banks, which are recorded on an accrual basis and are included in interest income in the unaudited interim condensed consolidated statements of comprehensive (loss)/income. Interest income is recognized as it accrued using the effective interest method.

3) Other income

Other income consists of enterprise public relations service charge income provided to enterprise clients, underwriting income, IPO subscription service charge income, currency exchange service income from clients, income from market data service, and client referral income from brokers, etc. Other income is recognized when the related services are rendered.

Enterprise public relations service charge income is charged to institution users by providing platform to post their detailed stock information and latest news in Futu NiuNiu app, as well as providing a lively, interactive community among their potential investors to exchange investment views, share trading experience and socialize with each other. Unearned enterprise public relations service income of which the Group had received the consideration is recorded as contract liabilities (deferred revenue).

IPO subscription service charge income is derived from provision of new share subscription services in relation to IPOs in the Hong Kong capital market.

Market information and data income are the amounts charged to Futu NiuNiu app users for market data service.

Client referral income from brokers is derived from referring clients to China A-share licensed brokers by embedding on the Group's website or online platform a link which can lead clients to the account opening interface of these brokers.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Foreign Currency Gains and Losses*

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign currency gain or loss resulting from the settlement of such transactions and from remeasurement at period-end is recognized in "Others, net" in the unaudited interim condensed consolidated statements of comprehensive (loss)/income.

*Incentives*

The Group offers a self-managed client loyalty program points, which can be used in mobile app and website to redeem a variety of concessions or service, such as commission-deduction coupon, Level 2 A shares securities market data card and slot machine lottery. Clients have a variety of ways to obtain the points. The major accounting policy for the points program is described as follows:

1) Sales contracts related scenarios

The sales contracts related scenarios include client entering into the first Hong Kong brokerage transaction, first US brokerage transaction, IPO stock brokerage transactions, and currency exchange services. The Group concludes the points offered linked to the purchase transaction of these scenarios is a material right and accordingly a separate performance obligation according to ASC 606, and should be taken into consideration when allocating the transaction price of the sales. The Group determines the value of each point based on fair value of the concessions and services that can be redeemed with points. The Group also estimates the probability of the points redemption when performing the allocation. Since the historical information does not yet exist for the Group to determine any potential points forfeitures and the fact that most services can be redeemed without requiring a significant amount of points comparing with the amount of points provided to users, the Group believes it is reasonable to assume all points will be redeemed and no forfeiture is estimated currently. The Group will apply and update the estimated redeem rate and the estimated value of each point at each reporting period. The amount allocated to the points as separate performance obligation is recorded as contract liabilities (deferred revenue) and revenue should be recognized when future concessions or services are transferred.

For the nine months ended September 30, 2017 and 2018, the revenue portion allocated to the points as separate performance obligation were HK\$1,165 thousand and HK\$1,852 thousand, respectively, which is recorded as contract liabilities (deferred revenue). For the nine month ended September 30, 2017 and 2018, the total points recorded as a reduction of revenue were HK\$81 thousand and HK\$274 thousand, respectively. As of December 31, 2017 and September 30, 2018, contract liabilities recorded related to unredeemed points were HK\$2,454 thousand and HK\$3,240 thousand, respectively.

2) Other scenarios

Clients or the users of the mobile application can also obtain points through other ways such as log-ins to the mobile application, opening a trade account and inviting friends, etc. The Group believes these points are to encourage user engagement and generate market awareness. As a result, the Group accounts for such points as selling and marketing expenses with a corresponding liability recorded under accrued expenses and other liabilities of its unaudited interim condensed consolidated balance sheets upon the points offering. The Group

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Incentives (Continued)***

## 2) Other scenarios (Continued)

estimates liabilities under the client loyalty program based on cost of the concessions or services that can be redeemed, and its estimate of full redemption. At the time of redemption, the Group records a reduction of accrued expenses and other liabilities.

For the nine months ended September 30, 2017 and 2018, the total points recorded as selling and marketing expenses were HK\$145 thousand and HK\$175 thousand, respectively. As of December 31, 2017 and September 30, 2018, liabilities recorded related to unredeemed points in other scenarios were HK\$488 thousand and HK\$452 thousand, respectively.

***Cash and Cash Equivalents***

Cash and cash equivalents represent cash on hand, demand deposits and time deposits placed with banks or other financial institutions, which are unrestricted to withdrawal or use, and which have original maturities of three months or less.

***Cash Held on Behalf of Clients***

The Group has classified the clients' deposits as cash held on behalf of clients under the assets section in the unaudited interim condensed consolidated balance sheets and recognized the corresponding accounts payables to the respective clients under the liabilities section.

***Property and Equipment, net***

Property and equipment, which are included in other assets in the unaudited interim condensed consolidated balance sheets are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

<u>Category</u>	<u>Estimated useful lives</u>	<u>Residual rate</u>
Computers equipment	3 - 5 years	5%
Furniture and fixtures	3 - 5 years	5%
Office equipment	3 - 5 years	5%
Vehicle	5 years	5%

Expenditures for maintenance and repairs are expensed as incurred.

***Intangible Assets***

Intangible assets which are included in other assets in the unaudited interim condensed consolidated balance sheets mainly consist of computer software, golf membership and trading right. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment, if any. Finite-lived intangible assets are

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Intangible Assets (Continued)***

tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Computer software	5 years
Golf membership	10 years

For the nine months ended September 30, 2018, the Operating Company obtained a futures trading right as a clearing member firm of Hong Kong Exchanges and Clearing Limited (“HKEx”) in order to trade futures through the trading facilities of the Stock Exchange, and has recognized it as intangible assets. The futures trading right has an indefinite useful life and are carried at cost less accumulated impairment losses. The Group will not amortize the trading right until its useful life is determined to be finite.

***Refundable Deposit***

Refundable deposit is included in other assets in the unaudited interim condensed consolidated balance sheets. As a clearing member firm of HKEx, the Group is also exposed to clearing member credit risk. HKEx requires member firms to deposit cash to a clearing fund. If a clearing member defaults in its obligations to the clearing organization in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. HKEx has the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost if the Group is required to pay such assessments.

***Fair Value Measurements***

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2 - Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fair Value Measurements (Continued)***

Level 3 - Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

The carrying amount of cash and cash equivalents, cash held on behalf of clients, receivables from and payables to clients, brokers and clearing organization, amounts due from and due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Loans and advances and accrued interest receivable are measured at amortized cost. Short-term borrowings and accrued interest payable are carried at amortized cost. The carrying amount of loans and advances, short-term borrowings, accrued interest receivable, and accrued interest payable approximates their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Available-for-sale financial securities are measured at fair value.

The Group's non-financial assets, such as property, equipment and computer software, would be measured at fair value only if they were determined to be impaired.

***Brokerage Commission and Handling Charge Expenses***

Commission expenses for executing and/or clearing transactions are accrued on a trade-date basis. The commission expenses are charged by executing brokers in the United States for securities trading in the United States stock markets as the Operating Company makes securities transaction with these brokers as principal instead of as agent in the Hong Kong securities brokerage business.

Handling and settlement fee is charged by HKEx or executing brokers in the United States for clearing and settlement services, are accrued on a trade-date basis.

IPO subscription service charge expenses are charged by commercial banks in connection with new share subscription services in relation to IPOs in the Hong Kong capital market.

***Interest Expenses***

Interest Expenses primarily consists of interest expenses of borrowings from banks, other licensed financial institutions and other parties paid to fund the Operating Company's margin financing business and IPO financing business.

***Processing and Servicing Costs***

Processing and servicing costs consists of market data and information fee, data transmission fee, cloud service fee, and SMS service fee, etc. The nature of market information and data fee mainly represents for information and data fee paid to stock exchanges like HKEx, NASDAQ, and New York stock exchange, etc.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Processing and Servicing Costs (Continued)***

Data transmission fee is the fee of data transmission among cloud server and data centers located in Shenzhen, PRC and Hong Kong, etc. Cloud service fee and SMS service fee mainly represent the data storage and computing service and the SMS channel service fee, see Note 25 for further explanation.

***Research and Development Expenses***

Research and development expenses consist of expenses related to developing transaction platform and website like Futu NiuNiu app and other products, including payroll and welfare, rental expenses and other related expenses for IT function. All research and development costs have been expensed as incurred as the costs qualifying for capitalization have been insignificant.

***Selling and Marketing Expenses***

Selling and marketing expenses consist primarily of advertising and promotion costs, payroll, rental and related expenses for personnel engaged in marketing and business development activities. Advertising and promotion costs are expensed as incurred and are included within selling and marketing expenses in the unaudited interim condensed consolidated statements of comprehensive (loss)/income. For the nine months ended September 30, 2017 and 2018, advertising and promotion costs totaled HK\$21,839 thousand and HK\$61,341 thousand, respectively.

***General and Administrative Expenses***

General and administrative expenses consist of payroll, rental, and related expenses for employees involved in general corporate functions, including finance, legal and human resources; costs associated with use of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

***Others, net***

Others, net, mainly consist of non-operating income and expenses, foreign currency gains or losses, other impairment for all periods presented. Non-operating expenses mainly consist of accrued social security underpayment surcharge. Other impairment mainly consists of write-offs of costs incurred for acquiring a Chinese licensed corporation in Hong Kong due to the change of the Group's business plan.

***Share-Based Compensation***

All share-based awards to employees and directors, such as stock options, are measured at the grant date based on the fair value of the awards. Share-based compensation, net of estimated forfeitures, is recognized as expenses on a straight-line method over the requisite service period, which is the vesting period. Options granted generally vest over four or five years.

The Group uses the fair value of each of the Company's ordinary shares on the grant date to estimate the fair value of stock options.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate pre-vesting options and records share-based

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Share-Based Compensation (Continued)***

compensation expenses only for those awards that are expected to vest. See Note 12 for further discussion on share-based compensation.

***Fair Value of Preferred Shares and Ordinary Shares***

Shares of the Company, which do not have quoted market prices, were valued based on the income approach. The income approach involves applying the discounted cash flow analysis based on projected cash flow using the Group's best estimate as of the valuation dates. Estimating future cash flow requires the Group to analyze projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. In determining an appropriate discount rate, the Group considered the cost of equity and the rate of return expected by venture capitalists. The Group also applied a discount for lack of marketability given that the shares underlying the award were not publicly traded at the time of grant. Determination of estimated fair value of the Group requires complex and subjective judgments due to its limited financial and operating history, unique business risks and limited public information on companies in China similar to the Group.

Option-pricing method was used to allocate enterprise value to preferred shares and ordinary shares. The method treats preferred shares and ordinary shares as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred shares. The strike prices of the "options" based on the characteristics of the Group's capital structure, including number of shares of each class of ordinary shares, seniority levels, liquidation preferences, and conversion values for the preferred shares. The option-pricing method also involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of the Group or an initial public offering, and estimates of the volatility of the Group's equity securities. The anticipated timing is based on the plans of board of directors and management of the Group. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies.

***Taxation***

1) Income tax

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in the unaudited interim condensed consolidated statement of comprehensive (loss)/income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Taxation (Continued)***

2) Uncertain tax positions

The Group did not recognize any interest and penalties associated with uncertain tax positions for the nine months ended September 30, 2017 and 2018. As of December 31, 2017 and September 30, 2018, the Group did not have any significant unrecognized uncertain tax positions.

***Net (loss)/income per share***

Basic net (loss)/income per share is computed by dividing net (loss)/income attributable to ordinary shareholder, considering the accretion of redemption feature and cumulative dividend related to the Company's redeemable convertible preferred shares, and undistributed earnings allocated to redeemable convertible preferred shares by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted net (loss)/income per share is calculated by dividing net (loss)/income attributable to ordinary shareholder, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the redeemable convertible preferred shares, using the if-converted method, and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net (loss)/income per share calculation when inclusion of such share would be anti-dilutive.

***Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographic location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The Group engages primarily in online brokerage services and margin financing services for clients in Hong Kong and PRC. The Group does not distinguish between markets or segments for the purpose of internal reports. The Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole. Hence, the Group has only one reportable segment.

***Significant Risks and Uncertainties***

1) Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. As an online broker active in Hong Kong and the U.S. market, the Operating Company is

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Significant Risks and Uncertainties (Continued)*

1) Currency risk (Continued)

exposed to minimal transactional foreign currency risk since Hong Kong dollars are pegged against U.S. dollars. The impact of foreign currency fluctuations in the Group's earnings is included in "others, net" in the unaudited interim condensed consolidated statements of comprehensive (loss)/income. At the same time, the Group is exposed to translational foreign currency risk since most of the Group's subsidiaries have RMB as their functional currency. Therefore, RMB depreciation against Hong Kong dollars could have a material adverse impact on the foreign currency translation adjustment in the unaudited interim condensed consolidated statements of comprehensive (loss)/income.

2) Credit risk

The Group's securities activities are transacted on either a cash or margin basis. The Group's credit risk is limited in that substantially all of the contracts entered into are settled directly at securities clearing organization. In margin transactions, the Group extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. IPO loans are exposed to credit risk from clients who fails to repay the loans upon IPO stock allotment. The Group monitors the clients' collateral level and has the right to dispose the newly allotted stocks once the stocks first start trading. Bridge loans to enterprise pledged by shares are exposed to credit risk from counterparties who fails to repay the loans, the Group perform real time monitor on the collateral level of bridge loans, and has the right to dispose of the pledged shares once the collateral level falls under the minimal level required to get the loans repaid.

Liabilities to other brokers and dealers related to unsettled transactions are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers.

In connection with its clearing activities, the Group is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Group. Clients are required to complete their transactions by the settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, the Group may incur losses. The Group has established procedures to reduce this risk by generally requiring that clients deposit sufficient cash and/or securities into their account prior to placing an order.

*Concentrations of Credit Risk*

The Group's exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. There was no revenue from clients which individually represented greater than 10% of the total revenues for the nine months ended September 30, 2017 and 2018, respectively. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of December 31, 2017 and September 30, 2018, the Group did not have any material concentrations of credit risk outside the ordinary course of business.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Significant Risks and Uncertainties (Continued)*

3) Interest rate risk

Fluctuations in market interest rates may negatively affect our financial condition and results of operations. The Group is exposed to floating interest rate risk on cash deposit and floating rate borrowings, and the risks due to changes in interest rates is not material. The Group has not used any derivative financial instruments to manage our interest risk exposure.

*Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Clients (Topic 606) (“ASU 2014-09”) and subsequently, the FASB issued several amendments which amend certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as “ASC 606”). According to ASC 606, revenue is recognized when control of the promised good or service is transferred to the clients, in an amount that reflects the consideration. The Group expect to be entitled to in exchange for those goods or services. The Group will enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns, and any taxes collected from clients, which are subsequently remitted to governmental authorities. The Group adopted ASC 606 using the full retrospective method for all periods presented.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. Further, in March 2018, the FASB issued “Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which provides further guidance on adjustments for observable transaction for equity securities without a readily determinable fair value and clarification on fair value option for liabilities instruments. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption by public entities is permitted only for certain provisions. The Group adopted ASU 2016-01, and the adoption had no material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU is effective for reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The ASU will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The Group is currently evaluating the impact that the adoption of this standard will have on its financial condition and results from operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for share-based compensation transactions specifically related to the tax effects associates with share-

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Recent Accounting Pronouncements (Continued)*

based compensation, an accounting policy election to determine how forfeitures are recorded and a change in the presentation requirements in the statement of cash flows. Non-public companies are also granted two additional optional provisions that would provide a practical expedient for determining the expected term and a one-time opportunity to change the measurement basis for all liability-classified awards to intrinsic value. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group adopted ASU 2016-09, and the adoption had no material impact on consolidated financial statements.

In June 2016, FASB amended guidance related to impairment of financial instruments as part of ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which will be effective on January 1, 2020. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a group is required to recognize an allowance based on its estimate of expected credit loss. The Group is currently evaluating the impact of this new guidance on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230). The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Group has early adopted the ASU for the periods presented.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. ASU 2018-13 will be effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. Since this update is intended to modify disclosures, the adoption of ASU 2018-13 is not expected to have a material impact on the Group's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. Under the ASU, entities should account for costs associated with implementing a cloud computing arrangement that is considered a service contract in the same way as accounting for implementation costs incurred to develop or obtain software for internal use using the guidance in ASU 350-40. The amendment address when costs should be capitalized rather than expensed, the item to use when amortizing capitalized costs, and how to evaluate the unamortized portion of these capitalized implementation costs for impairment. The ASU also includes guidance on how to present implementation costs in the financial statements and creates additional disclosure requirements. ASU 2018-15 will be effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The Group is currently evaluating the impact of this new guidance on the consolidated financial statements.

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

*Financial Assets and Liabilities Measured at Fair Value*

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets measured at fair value as of September 30, 2018 and December 31, 2017. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	Financial Assets At Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial securities	—	17,046	—	17,046

	Financial Assets At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Other financial assets	10	—	—	10

*Transfers Between Level 1 and Level 2*

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period. During the nine months ended September 30, 2017 and 2018, there were no transfers between levels for financial assets and liabilities, at fair value.

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Financial Assets and Liabilities Not Measured at Fair Value*

The following tables represent the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Group's unaudited interim condensed consolidated balance sheets. The following table excludes all non-financial assets and liabilities:

	As of September 30, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
(HK\$ in thousands)					
<b>Financial assets, not measured at fair value</b>					
Cash and cash equivalents	272,371	272,371	272,371	—	—
Cash held on behalf of clients	11,004,151	11,004,151	11,004,151	—	—
Amounts due from related parties	11,270	11,270	—	11,270	—
Loans and advances	3,800,814	3,800,814	—	3,800,814	—
Receivables:					
Clients	160,967	160,967	—	160,967	—
Brokers	486,208	486,208	—	486,208	—
Clearing organization	5,600	5,600	—	5,600	—
Interest	32,267	32,267	—	32,267	—
Other financial assets	36,812	36,812	—	36,812	—
<b>Total financial assets, not measured at fair value</b>	<u>15,810,460</u>	<u>15,810,460</u>	<u>11,276,522</u>	<u>4,533,938</u>	<u>—</u>

	As of September 30, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
(HK\$ in thousands)					
<b>Financial liabilities, not measured at fair value</b>					
Amounts due to related parties	4,185	4,185	—	4,185	—
Payables:					
Clients	11,433,670	11,433,670	—	11,433,670	—
Brokers	1,362,343	1,362,343	—	1,362,343	—
Clearing organization	5,771	5,771	—	5,771	—
Interest	5,510	5,510	—	5,510	—
Short-term borrowings	1,907,837	1,907,837	—	1,907,837	—
Other financial liabilities	7,533	7,533	—	7,533	—
<b>Total financial liabilities, not measured at fair value</b>	<u>14,726,849</u>	<u>14,726,849</u>	<u>—</u>	<u>14,726,849</u>	<u>—</u>

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Financial Assets and Liabilities Not Measured at Fair Value (Continued)*

	As of December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial assets, not measured at fair value</b>					
Cash and cash equivalents	375,263	375,263	375,263	—	—
Cash held on behalf of clients	7,176,579	7,176,579	7,176,579	—	—
Amounts due from related parties	6,541	6,541	—	6,541	—
Loans and advances	2,907,967	2,907,967	—	2,907,967	—
Receivables:					
Clients	218,960	218,960	—	218,960	—
Brokers	106,078	106,078	—	106,078	—
Clearing organization	55,892	55,892	—	55,892	—
Interest	7,041	7,041	—	7,041	—
Other financial assets	33,331	33,331	—	33,331	—
<b>Total financial assets, not measured at fair value</b>	<b>10,887,652</b>	<b>10,887,652</b>	<b>7,551,842</b>	<b>3,335,810</b>	<b>—</b>

	As of December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(HK\$ in thousands)				
<b>Financial liabilities, not measured at fair value</b>					
Amounts due to related parties	14,687	14,687	—	14,687	—
Payables:					
Clients	7,340,823	7,340,823	—	7,340,823	—
Brokers	929,692	929,692	—	929,692	—
Clearing organization	82,878	82,878	—	82,878	—
Interest	2,066	2,066	—	2,066	—
Short-term borrowings	1,542,448	1,542,448	—	1,542,448	—
Other financial liabilities	10,832	10,832	—	10,832	—
<b>Total financial liabilities, not measured at fair value</b>	<b>9,923,426</b>	<b>9,923,426</b>	<b>—</b>	<b>9,923,426</b>	<b>—</b>

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

*Netting of Financial Assets and Financial Liabilities*

In the tables below, the amounts of financial instruments that are not offset in the unaudited interim condensed consolidated balance sheets, but could be netted against cash or financial instruments with specific counterparties under master netting agreements, according to the terms of the agreements, including clearing organization, are presented to provide financial statement readers with the Group's net payable or receivable with counterparties for these financial instruments, as of December 31, 2017 and September 30, 2018.

As of	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
September 30, 2018						
	(HK\$ in thousands)					
<b>Financial Assets</b>						
Amounts due from clearing organization	785,002	(779,402)	5,600	—	—	5,600
Deposit paid for securities borrowed <sup>(1)</sup>	447,222	—	447,222	—	(352,836)	94,386
<b>Financial liabilities</b>						
Amounts due to clearing organization	744,863	(739,092)	5,771	—	—	5,771
Deposit received for securities lent <sup>(1)</sup>	566,908	—	566,908	—	(352,836)	214,072
December 31, 2017						
	(HK\$ in thousands)					
<b>Financial assets</b>						
Amounts due from clearing organization	944,194	(888,302)	55,892	—	—	55,892
Deposit paid for securities borrowed <sup>(1)</sup>	96,347	—	96,347	—	(73,726)	22,621
<b>Financial liabilities</b>						
Amounts due to clearing organization	989,229	(906,351)	82,878	—	—	82,878
Deposit received for securities lent <sup>(1)</sup>	117,848	—	117,848	—	(73,726)	44,122

(1) The Operating Company borrows securities from a securities lender and subsequently lends the securities to customers. Under this agreement the amounts of deposits paid for securities borrowed is transacted through the securities lender and the Operating Company receives deposits from customers for securities borrowing purpose. For presentation purposes, these amounts presented are included in "Receivables from brokers" and "Payables to clients" in the unaudited interim condensed consolidated balance sheets, respectively.

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. LOANS AND ADVANCES

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Margin loans	2,865,035	3,600,330
Other advances	42,932	200,484
Total	<u>2,907,967</u>	<u>3,800,814</u>

## 5. PROPERTY AND EQUIPMENT, NET

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
<b>Gross carrying amount</b>		
Office equipment	11,997	19,580
Computers equipment	5,876	10,594
Furniture and fixtures	3,791	3,602
Vehicle	637	637
Total of gross carrying amount	<u>22,301</u>	<u>34,413</u>
<b>Less: accumulated depreciation</b>		
Office equipment	(3,992)	(6,772)
Computers equipment	(2,639)	(3,906)
Furniture and fixtures	(1,984)	(2,425)
Vehicle	(293)	(383)
Total of accumulated depreciation	<u>(8,908)</u>	<u>(13,486)</u>
Property and equipment, net	<u>13,393</u>	<u>20,927</u>

Depreciation expenses on property and equipment which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the unaudited interim condensed consolidated statements of comprehensive (loss)/income for the nine months ended September 30, 2017 and 2018 were HK\$2,908 thousand and HK\$5,313 thousand, respectively.

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. INTANGIBLE ASSETS, NET

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
<b>Gross carrying amount</b>		
Computer software	1,217	1,156
Trading right	500	1,000
Golf membership	726	690
Total of gross carrying amount	2,443	2,846
<b>Less: accumulated amortization</b>		
Computer software	(579)	(740)
Trading right	(500)	(500)
Golf membership	(85)	(132)
Total of accumulated amortization	(1,164)	(1,372)
Intangible assets, net	1,279	1,474

Amortization expenses on intangible assets which are included in research and development expenses, selling and marketing expense and general and administrative expenses in the unaudited interim condensed consolidated statements of comprehensive (loss)/income for the nine months ended September 30, 2017 and 2018 were HK\$236 thousand and HK\$255 thousand, respectively.

## 7. OTHER ASSETS

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Property and equipment, net (Note 5)	13,393	20,927
Refundable deposit	18,659	16,783
Deferred tax assets (Note 21)	15,776	—
Deferred initial public offering cost	—	4,044
Intangible assets, net (Note 6)	1,279	1,474
Others	16,811	21,721
Total	65,918	64,949

## 8. SHORT-TERM BORROWINGS

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
<b>Borrowings from:</b>		
Banks	1,142,448	1,707,837
Related parties	400,000	200,000
Total	1,542,448	1,907,837

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. SHORT-TERM BORROWINGS (Continued)**

The Group loaned short-term borrowings mainly to support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of 3.18% and 4.37% as of December 31, 2017 and September 30, 2018, respectively.

On December 21, 2017, the Group entered into a loan agreement with a related party of a facility amount of up to HK\$700,000 thousand with a maturity date of June 21, 2018, which was guaranteed by Mr. Leaf Hua Li, then the agreement is amended as follows: facility amount for the period from December 22, 2017 to June 21, 2018 is up to HK\$700,000 thousand, with a fixed interest rate of 4.5% per annum; facility amount for the period from June 22, 2018 to September 21, 2018 is up to HK\$600,000 thousand, with a fixed interest rate of 7% per annum; facility amount for the period from September 22, 2018 to October 21, 2018 is up to HK\$200,000 thousand, with a fixed interest rate of 7.2% per annum. As of September 30, 2018, the outstanding balance of the loan was HK\$ 200,000 thousand.

In November 2017, the Group entered into a one-year credit agreement with one commercial bank in Hong Kong, which provided a revolving loan facility of up to an aggregate maximum amount of HK\$750 million (or 90% of its equivalent in RMB). The facility will expire on November 13, 2018. The Group is entitled to choose the interest period ("Interest Period") for each advance being either one, two or three month(s). In case of drawings in HK\$, the interest shall be charged at 1.5% per annum over Hong Kong Interbank offered rate ("HIBOR") for the relevant Interest Period. In case of drawings in RMB, the interest shall be charged at 1.5% per annum over the CNH HIBOR for the relevant Interest Period. All amounts borrowed under this Facility (including interest accrued thereon) shall be repaid or reborrowed at the end of each Interest Period. As of September 30, 2018, the Group had an outstanding borrowing balance of HK\$446,137 thousand under the facility, which was guaranteed by Mr. Leaf Hua Li and repledged by margin clients' shares with market value of HK\$924,260 thousand as collateral.

In December 2017, the Group entered into a uncommitted revolving loan agreement with one commercial bank in Hong Kong of a facility amount of up to HK\$500,000 thousand or its equivalent in US\$ or RMB, which will mature on December 19, 2018. Each drawing will bear interest at a floating rate which will be determined case-by-case in accordance with the bank's common practice and which shall from time to time be agreed by the Group. As of September 30, 2018, the outstanding balance of the loan was HK\$460,000 thousand, which was guaranteed by Mr. Leaf Hua Li.

In February 2018, the Group entered into a uncommitted revolving loan agreement with one commercial bank in Hong Kong of a facility amount of up to HK\$1,000,000 thousand to finance the margin trading of our margin clients, which will mature on February 12, 2019, and bear interest at a floating rate of 1.3% per annum over applicable HIBOR. As of September 30, 2018, there is no outstanding balance while the Group still pledged shares of margin financing clients with market value of HK\$16,160 thousand as collateral.

In February 2018, the Group entered into a share margin financing overdraft with one commercial bank, of which facility is up to HK\$400,000 thousand bearing interest rate of 1.5% per annum over HIBOR. The outstanding balance is repayable on demand upon request by the bank or otherwise shall continue up to and including December 31, 2018. As of September 30, 2018, the outstanding balance of the loan was HK\$251,700 thousand, which was guaranteed by Mr. Leaf Hua Li and pledged by shares of margin clients with market value of HK\$555,904 thousand as collateral.

In March 2018, the Group entered into a secured loan agreement with an aggregate facility amount of up to HK\$300,000 thousand with one commercial bank in Hong Kong. The loan will mature on March 1, 2019, and

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. SHORT-TERM BORROWINGS (Continued)**

bear interest at a floating rate of 1.6% per annum over applicable HIBOR or 0.7% per annum over the deposit rate, whichever is lower (for Hong Kong Dollars), or 1.6% per annum over applicable LIBOR or 0.7% per annum over the deposit rate, whichever is lower (for US Dollars). As of September 30, 2018, the outstanding balance of the loan was HK\$210,000 thousand, which was guaranteed by Mr. Leaf Hua Li and secured by pledged shares of margin clients with market value of HK\$468,640 thousand as collateral.

In March 2018, the Group entered into a revolving loan agreement with one commercial bank in Hong Kong of a facility amount of HK\$160,000 thousand, which will mature on March 19, 2019. HK\$8,000 thousand out of the HK\$160,000 thousand will bear interest at a floating rate of 2.5% per annum over HIBOR. HK\$2,000 thousand out of the HK\$160,000 thousand will bear interest at a floating rate of 1% per annum below the bank's HKD Prime Rate, or 1% per annum over HIBOR, which is higher, payable monthly in arrears, while the other HK\$150,000 thousand will bear interest at a floating rate of 1.5% per annum over HIBOR. As of September 30, 2018, the outstanding balance of the loan was HK\$140,000 thousand, which was guaranteed by Mr. Leaf Hua Li and secured by pledged shares of margin clients with market value of HK\$255,328 thousand as collateral.

In April 2018, the Group entered into an uncommitted revolving loan agreement with one commercial bank in Hong Kong of a facility amount of US\$75,000 thousand to finance margin financing business, which will mature on March 22, 2019. US\$70,000 thousand out of the US\$75,000 thousand loan will bear interest at a floating rate of 1.6% per annum over LIBOR (for US\$ advances) or 1.5% per annum over HIBOR (for HK\$ advances) or 1% per annum over the Bank's cost of funds (for RMB advances), while the other US\$5,000 thousand will bear interest at a floating rate of 2.2% per annum over LIBOR (for US\$ advances) or 2.1% per annum over HIBOR (for HK\$ advances) or 1.5% per annum over the bank's cost of funds (for RMB advances). As of September 30, 2018, the outstanding balance of the loan was HK\$200,000 thousand, which was guaranteed by Mr. Leaf Hua Li and secured by pledged shares, with market value of HK\$643,168 thousand as collateral.

**9. ACCRUED EXPENSES AND OTHER LIABILITIES**

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Payroll and welfare payables	36,017	41,513
Tax payables	5,135	19,446
Accrued surcharges of social security underpayment	5,451	9,988
Accrued initial public offering fees and costs	—	9,185
Stamp duty, trading levy and trading fee payables	5,739	4,166
Contract liabilities	4,404	3,240
Others	3,971	7,028
Total	<u>60,717</u>	<u>94,566</u>

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. ORDINARY SHARES**

The Company's original Memorandum and Articles of Association authorizes the Company to issue 807,500 ordinary shares with a par value of US\$0.0050 per share. After a share split effective on September 22, 2016, the Company's amended Memorandum and Articles of Association authorizes the Company to issue 403,750,000 ordinary shares with a par value of US\$0.00001 per share. Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

***Dividend distribution***

Dividend distribution to the Company's shareholder is recognized as a liability in the Group's unaudited interim condensed consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

**11. REDEEMABLE CONVERTIBLE PREFERRED SHARES**

In October 2014, the Group issued 250,000 Series A Convertible Redeemable Preferred Shares ("Series A Preferred Shares") for an aggregate purchase price of US\$7,000 thousand and 46,875 Series A-1 Convertible Redeemable Preferred Shares ("Series A-1 Preferred Shares") for an aggregate purchase price of US\$1,500 thousand.

In May 2015, the Group issued 176,847 Series B Convertible Redeemable Preferred Shares ("Series B Preferred Shares") for an aggregate purchase price of US\$30,000 thousand.

All the Series A, Series A-1 and Series B Preferred Shares were issued for cash consideration and have the same par value of US\$0.005 per share at each issuance date.

After a share split effective on September 22, 2016, the number of shares of Series A, Series A-1 and Series B Preferred Shares were proportionally split with par value of US\$0.00001 per share. 125,000,000 Series A Preferred Shares, 23,437,500 Series A-1 Preferred Shares and 88,423,500 Series B Preferred Shares were issued in the Company's amended Memorandum and Articles of Association.

In May 2017, the Group issued 128,844,812 Series C Convertible Redeemable Preferred Shares ("Series C Preferred Shares") for an aggregate purchase price of US\$91,362 thousand and 12,225,282 Series C-1 Convertible Redeemable Preferred Shares ("Series C-1 Preferred Shares") for an aggregate purchase price of US\$12,609 thousand.

Out of the total Series C Preferred Shares, i) 95,094,173 Series C Preferred Shares were issued for cash consideration of US\$67,430 thousand; ii) 5,878,794 Series C Preferred Shares were converted from the convertible note with the principal amount of US\$3,855 thousand plus accrued but unpaid interest of US\$314 thousand at the price per share of US\$0.71; and iii) 27,871,845 Series C Preferred Shares were issued from the repayment of an outstanding principal amount of US\$19,274 thousand plus accrued but unpaid interest of US\$490 thousand loaned by the fellow subsidiary of the investor of Series C Preferred Shares to the Company. The total Series C-1 Preferred Shares were issued of cash consideration.

The Series A, Series A-1, Series B, Series C and Series C-1 Preferred Shares are collectively referred to as the "Preferred Shares". All series of Preferred Shares have the same par value of US\$0.00001 per share.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

The Group determined that the Series A, Series A-1, Series B, Series C and Series C-1 Preferred Shares should be classified as mezzanine equity upon their respective issuance since the Preferred Shares are contingently redeemable at any time on or after May 22, 2023 (the sixth anniversary of the issuance date of the Series C Preferred Shares) from the issuance date in the event that a qualified initial public offering (“QIPO”) has not occurred and the Preferred Shares have not been converted. The QIPO is defined as the closing of a firm commitment underwritten public offering of ordinary shares of the Company (or depository receipts or depository shares therefor) on the an internationally recognized securities exchange agreed to by the Company and the requisite holders at a public offering price per share corresponding to a valuation of the Company of at least US\$1 billion or more on a fully diluted basis immediately following the completion of such offering, and also raising a financing amount no less than US\$200 million (net of underwriters discounts and commissions).

The major rights, preferences and privileges of the Preferred Shares issued by the Company are as follows:

***Conversion Rights***

1) Optional Conversion

Each of the Preferred Shares is convertible, at the option of the holder, into the Company’s ordinary shares at an initial conversion ratio of 1:1 at any time after the date of issuance of such Preferred Shares, subject to adjustments in the event of (i) share splits and combinations, (ii) ordinary share dividends and distributions, or (iii) reorganizations, mergers, consolidations, reclassifications, exchanges and substitutions.

2) Automatic Conversion

Each Preferred Share shall automatically be converted into ordinary shares, at the then-effective preferred share conversion price upon the occurrence of a QIPO.

***Voting Rights***

The holder of each ordinary share issued and outstanding has one vote for each ordinary share held and the holder of each Preferred Shares has the number of votes as equals to the number of ordinary shares then issuable upon their conversion into ordinary shares. To the extent that applicable law, Memorandum and Articles of the Company allow any class or series of Preferred Shares to vote separately as a class or series with respect to any matters, such Preferred Shares shall vote separately as a class or series with respect to such matters.

***Redemption Rights***

Redemption Condition for Preferred Shares:

The Preferred Shares are redeemable in the event of:

- i) any material breach of the transaction documents by any Group Company which involves fraud, intentional misconduct, or gross negligence, and which results in a material adverse effect;
- ii) the failure of a QIPO to occur by the sixth anniversary of the issuance date of the Series C Preferred Shares; or
- iii) requested by a majority holders of the Preferred Shares.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

***Redemption Rights (Continued)***

The redemption price of each Preferred Share shall be the sum of (i) the Preferred Shares issuance price, (ii) plus interest thereon at 6% per annum on the issuance price, compounded annually; and (iii) plus any accrued but unpaid dividends.

The Group accretes changes in the redemption value over the period from the date of issuance of the Preferred Shares to their respective earliest redemption date using effective interest method. Changes in the redemption value are considered to be changes in accounting estimates. The accretion will be recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges should be recorded by increasing the accumulated deficit.

***Dividends Rights***

Each holders of the Preferred Shares shall be entitled to receive preferential dividends prior and in preference before, any dividend on the ordinary shares. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be non-cumulative.

After payment of such preferential dividends on Preferred Shares during any year, any further dividends or distribution distributed during such year shall be declared and paid ratably on the outstanding Preferred Shares (on an as-converted basis) and the ordinary shares.

No dividends on Preferred Shares and ordinary shares have been declared since the inception through September 30, 2018.

***Liquidation Preferences***

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, all assets and funds of the Company legally available for distribution among holders of the outstanding Shares (on an as-converted to basis) in the following order and manner:

- i) the holders of the Series C Preferred Shares and Series C-1 Preferred Shares shall be entitled to receive for each Series C Preferred Share and Series C-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to 100% of the Series C issuance price and Series C-1 issuance price, plus all accrued but unpaid dividends on such Series C Preferred Share and Series C-1 Preferred Share, as applicable (collectively, the “Series C Preference Amount”).
- ii) if there are any assets or funds remaining after the aggregate Series C Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares and Series C-1 Preferred Shares, the holders of the Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, the amount equal to 100% of the Series B issuance price, plus all accrued but unpaid dividends on such Series B Preferred Share (collectively, the

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

*Liquidation Preferences (Continued)*

“Series B Preference Amount”). If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the Series B Preference Amount each such holder is otherwise entitled to receive.

- iii) if there are any assets or funds remaining after the aggregate Series C Preference Amount and Series B Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares, Series C-1 Preferred Shares and Series B Preferred Shares, respectively, the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be entitled to receive for each Series A Preferred Share and Series A-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the remaining assets or funds of the Company to the holders of Ordinary Shares by reason of their ownership of such shares, the amount equal to 100% of the Series A issuance price or the Series A-1 issuance price, as applicable, plus all accrued but unpaid dividends on such Series A Preferred Share and Series A-1 Preferred Share, as applicable (collectively, the “Series A Preference Amount”). If the assets and funds thus distributed among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares in proportion to the Series A Preference Amount each such holder is otherwise entitled to receive.
- iv) if there are any assets or funds remaining after the aggregate of the Series A Preference Amount, Series B Preference Amount and Series C Preference Amount have been distributed or paid in full to the applicable holders of Preferred Shares, the remaining assets and funds of the Company available for distribution to the shareholders shall be distributed ratably among the holders of the Preferred Shares (on an as-converted basis), together with the holders of the ordinary shares.

*Accounting of the Preferred Shares*

The Company classified the Preferred Shares as mezzanine equity in the unaudited interim condensed consolidated balance sheets because they were redeemable at the holders’ option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company’s control. The Preferred Shares are recorded initially at fair value, net of issuance costs.

The Group determined that the embedded conversion features and the redemption features do not require bifurcation as they either are clearly and closely related to the Preferred Shares or do not meet the definition of a derivative.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Preferred Shares. In making this determination, the Group compared the initial effective conversion prices of the Preferred Shares and the fair values of the Group’s ordinary shares determined by the Group at the issuance dates. The initial effective conversion prices were greater than the fair values of the ordinary shares to which the Preferred Shares are convertible into at the issuance dates.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)**

*Accounting of the Preferred Shares (Continued)*

The Group's Preferred Shares activities for the nine months ended September 30, 2017 and 2018 are summarized below:

	Series A Preferred Shares		Series A-1 Preferred Shares		Series B Preferred Shares		Series C Preferred Shares		Series C-1 Preferred Shares	
	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$	No. of shares	Amount in HK\$
Balances at December 31, 2016	125,000,000	61,506,395	23,437,500	13,179,946	88,423,500	254,488,880	—	—	—	—
Issuance of Preferred Shares	—	—	—	—	—	—	128,844,812	708,765,649	12,225,282	97,818,708
Preferred Shares redemption value accretion	—	2,459,772	—	527,094	—	10,541,880	—	15,363,197	—	2,120,316
Balances at September 30, 2017	125,000,000	63,966,167	23,437,500	13,707,040	88,423,500	265,030,760	128,844,812	724,128,846	12,225,282	99,939,024
Balances at December 31, 2017	125,000,000	64,780,253	23,437,500	13,881,487	88,423,500	268,519,700	128,844,812	734,871,721	12,225,282	101,421,674
Preferred Shares redemption value accretion	—	2,469,317	—	529,139	—	10,582,785	—	32,228,970	—	4,448,005
Balances at September 30, 2018	125,000,000	67,249,570	23,437,500	14,410,626	88,423,500	279,102,485	128,844,812	767,100,691	12,225,282	105,869,679

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. SHARE-BASED COMPENSATION**

Share-based compensation was recognized in operating expenses for the nine months ended September 30, 2017 and 2018 as follows:

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Research and development expenses	6,682	6,648
General and administrative expenses	569	565
Selling and marketing expenses	151	30
Total share-based compensation expenses	<u>7,402</u>	<u>7,243</u>

**Share Options**

In October, 2014, the Board of Directors of the Group approved the establishment of 2014 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to the Group. The 2014 Share Incentive Plan shall be valid and effective until October 30, 2024. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2014 Share Incentive Plan shall be 135,032,132 shares. Option awards are granted with an exercise price determined by the Board of Directors. Those option awards generally vest over a period of four or five years and expire in ten years.

For the nine months ended September 30, 2017 and 2018, the Group granted 217,455 and 30,690 share options to employees pursuant to the 2014 Share Incentive Plan.

A summary of the stock option activity under the 2014 Share Incentive Plan for the nine months ended September 30, 2017 and 2018 is included in the table below.

	Options granted share Number	Weighted average exercise price (US\$)
Outstanding at January 1, 2017	111,407,320	0.0168
Granted	217,455	0.9188
Outstanding at September 30, 2017	<u>111,624,775</u>	0.0186
Outstanding at January 1, 2018	111,624,775	0.0186
Granted	30,690	2.2000
Outstanding at September 30, 2018	<u>111,655,465</u>	0.0192

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED COMPENSATION (Continued)

*Share Options (Continued)*

The following table summarizes information regarding the share options granted as of December 31, 2017 and September 30, 2018:

	As of December 31, 2017			
	Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value HK\$ in thousand
		US\$		
Options				
Outstanding	111,624,775	0.0186	6.84	6,660
Exercisable	70,630,894	0.0073	6.84	4,317
Expected to vest	40,993,881	0.0380	6.84	2,343
	As of September 30, 2018			
	Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value HK\$ in thousand
		US\$		
Options				
Outstanding	111,655,465	0.0192	6.09	7,264
Exercisable	76,381,552	0.0111	6.09	5,048
Expected to vest	35,273,913	0.0367	6.09	2,216

The weighted average grant date fair value of options granted for the nine months ended September 30, 2017 and 2018 was US\$0.0998 and US\$0.0311 per option, respectively.

No options were exercised for the nine months ended September 30, 2017 and 2018.

As of December 31, 2017 and September 30, 2018, there was HK\$15,644 thousand (US\$2,023 thousand) and HK\$8,614 thousand (US\$1,099 thousand) of unrecognized compensation expenses related to the options, which is expected to be recognized over a weighted-average period of 1.38 and 0.59 years, respectively.

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. NET (LOSS)/INCOME PER SHARE

For the nine months ended September 30, 2017 and 2018, the Group has determined that its all classes of convertible redeemable preferred shares are participating securities as they participate in undistributed earnings on an as-if-converted basis. The holders of the Preferred Shares are entitled to receive dividends on a pro rata basis, as if their shares had been converted into ordinary shares. Accordingly, the Group uses the two-class method of computing net income per share, for ordinary shares and preferred shares according to the participation rights in undistributed earnings.

Basic net (loss)/income per share and diluted net (loss)/income per share have been calculated in accordance with ASC 260 on computation of earnings per share for the nine months ended September 30, 2017 and 2018 as follows:

	For the Nine Months Ended September 30,	
	2017	2018
(HK\$ in thousands, except for share and per share data)		
<b>Basic net (loss)/income per share calculation:</b>		
<b>Numerator:</b>		
Net (loss)/income attributable to ordinary shareholder of the Company	(69,004)	25,867
<b>Denominator:</b>		
Weighted average ordinary shares outstanding - basic	403,750,000	403,750,000
<b>Net (loss)/income per share attributable to ordinary Shareholder - basic</b>	<u>(0.17)</u>	<u>0.06</u>
<b>Diluted net (loss)/income per share calculation:</b>		
<b>Numerator:</b>		
Net (loss)/income attributable to ordinary shareholder - diluted	(69,004)	25,867
<b>Denominator:</b>		
Weighted average ordinary shares outstanding - basic	403,750,000	403,750,000
Dilutive effect of share options	—	104,932,862
Weighted average ordinary shares outstanding - diluted	<u>403,750,000</u>	<u>508,682,862</u>
<b>Net (loss)/income per share attributable to ordinary Shareholder - diluted</b>	<u>(0.17)</u>	<u>0.05</u>

For the nine months ended September 30, 2017 and 2018, options to purchase ordinary shares that were anti-dilutive and excluded from the calculation of diluted net (loss)/income per share were 98,937,192 and 249,613 shares on a weighted average basis, respectively. For the nine months ended September 30, 2017 and 2018, the preferred shares convertible into ordinary shares that were anti-dilutive and excluded from the calculation of diluted net (loss)/income per share of the Company were 305,070,716 and 377,931,094 shares on a weighted average basis, respectively.

14. COLLATERALIZED TRANSACTIONS

The Operating Company also engages in margin financing transactions with and for clients through margin lending. Client receivables generated from margin lending activity are collateralized by client-owned securities

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. COLLATERALIZED TRANSACTIONS (Continued)**

held by the Operating Company. Clients' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to the Operating Company's policy and as enforced by such systems, clients are required to deposit additional collateral or reduce positions, when necessary to avoid forced liquidation of their positions.

Margin loans are extended to clients on a demand basis and are not committed facilities. Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Operating Company's collateral policies significantly limits the Operating Company's credit exposure to margin loans in the event of a client's default. As of December 31, 2017 and September 30, 2018, approximately HK \$2,865,035 thousand and HK\$3,600,330 thousand, respectively, of client margin loans were outstanding.

The following table summarizes the amounts related to collateralized transactions as of December 31, 2017 and September 30, 2018:

	As of			
	December 31, 2017		September 30, 2018	
	HK\$ in thousands		HK\$ in thousands	
	Permitted to repledge	Repledged	Permitted to repledge	Repledged
Client margin assets	9,211,920	1,299,200	8,239,689	2,863,460

**15. BROKERAGE COMMISSION AND HANDLING CHARGE INCOME**

	For the Nine Months Ended	
	September 30,	
	2017	2018
	(HK\$ in thousands)	
Brokerage commission income	57,982	197,442
Handling charge income	56,445	97,220
Total	<u>114,427</u>	<u>294,662</u>

**16. INTEREST INCOME**

	For the Nine Months Ended	
	September 30,	
	2017	2018
	(HK\$ in thousands)	
Interest income from:		
Margin financing and securities lending	29,708	175,888
Bank deposits	21,892	74,160
Bridge loan	—	4,813
IPO financing	398	2,876
Total	<u>51,998</u>	<u>257,737</u>

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17. OTHER INCOME

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
IPO subscription service charge income	1,472	13,678
Underwriting fee income	776	8,724
Enterprise public relations service charge income	5,380	6,430
Currency exchange service income	2,402	2,024
Market information and data income	175	714
Client referral income from brokers	950	105
Other	787	93
Total	<u>11,942</u>	<u>31,768</u>

## 18. BROKERAGE COMMISSION AND HANDLING CHARGE EXPENSES

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Commission, handling and settlement expenses	22,445	58,126
IPO subscription service charge expenses	109	1,488
	<u>22,554</u>	<u>59,614</u>

## 19. INTEREST EXPENSES

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Interest expenses for margin financing		
Borrowings from banks	1,791	29,440
Borrowings from other licensed financial institutions	2,724	18,442
Borrowings from other parties	2,363	22,476
Interest expenses for IPO financing		
Borrowings from banks	52	2,818
	<u>6,930</u>	<u>73,176</u>

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20. PROCESSING AND SERVICING COSTS**

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Market information and data fee	28,828	33,887
Data transmission fee	3,972	6,333
Cloud service fee	5,654	9,284
SMS service fee	761	1,520
Others	275	1,525
	<u>39,490</u>	<u>52,549</u>

**21. TAXATION*****Value-added tax ("VAT")***

During the periods presented, the Group is subject to 6% VAT rate for the income arising from rendering financial technology services to its clients in PRC.

Except that Futu Network Technology (Shenzhen) Co., Ltd. converted from Small-scale VAT Taxpayer to general VAT Taxpayer in April 2016 and was subject to 3% VAT rate for services income during January to March 2016.

The Group is also subject to surcharges on VAT payments according to PRC tax.

***Income Tax***

## 1) Cayman Islands

The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

## 2) Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, Installment Hong Kong is subject to 16.5% income tax rate on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

## 3) China

The Company's subsidiaries, consolidated VIE and subsidiary of the VIE established in the PRC are subject to statutory income tax at a rate of 25%.

Under the Enterprise Income Tax ("EIT") Law enacted by the National People's Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21. TAXATION (Continued)*****Income Tax (Continued)***

## 3) China (Continued)

after January 1, 2008 and payable by FIEs in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with PRC.

The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the Group's entities organized outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiary registered outside the PRC should be deemed resident enterprises, the Company and its subsidiary registered outside the PRC will be subject to the PRC income tax, at a rate of 25%.

***Composition of income tax expense***

The following table sets forth current and deferred portion of income tax expense:

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(HK\$ in thousands)</b>	
Current income tax expense	—	24,144
Deferred income tax expense	2,702	15,738
Income tax expense	<u>2,702</u>	<u>39,882</u>

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. TAXATION (Continued)

*Tax Reconciliation*

Reconciliation between the income tax expenses computed by applying the Hong Kong enterprise tax rate to income before income taxes and actual provision were as follows:

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
(Loss)/income before income tax	(35,290)	140,220
Tax (benefit)/expense at Hong Kong profit tax rate of 16.5%	(5,823)	23,136
Changes in valuation allowance	3,317	2,284
Tax effect of permanence differences	4,756	4,853
Effect of income tax in jurisdictions other than Hong Kong	452	9,609
Income tax expense	<u>2,702</u>	<u>39,882</u>

*Deferred Tax Assets*

Deferred income tax expense reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets are as follows:

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Deferred tax assets		
Net operating loss carryforwards	29,290	15,798
Less: valuation allowance	<u>(13,514)</u>	<u>(15,798)</u>
Net deferred tax assets	<u>15,776</u>	<u>—</u>

*Movement of Valuation Allowance*

	For the Nine Months Ended September 30,	
	2017	2018
	(HK\$ in thousands)	
Balance at beginning of the period	9,050	13,514
Additions	3,317	2,284
Reversals	—	—
Balance at end of the period	<u>12,367</u>	<u>15,798</u>

Valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. TAXATION (Continued)**

*Movement of Valuation Allowance (Continued)*

than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The statutory rate of 25% or 16.5%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2017 and September 30, 2018, the Group had net operating loss carryforwards of approximately HK\$126,473 thousand and HK\$74,051 thousand, respectively, which arose from the subsidiaries, VIE and the VIE's subsidiary established in Hong Kong and PRC. As of December 31, 2017 and September 30, 2018, of the net operating loss carryforwards, HK\$65,491 thousand and HK\$74,051 thousand was provided for valuation allowance respectively, while the remaining HK\$60,982 thousand and nil is expected to be utilized prior to expiration considering future taxable income for respective entities. As of September 30, 2018, the net operating loss carryforwards will expire during the period from 2019 to 2023, if unused.

The Company intends to indefinitely reinvest all the undistributed earnings of the Company's VIE and subsidiary of the VIE in China, and does not plan to have any of its PRC subsidiaries to distribute any dividend; therefore no withholding tax is expected to be incurred in the foreseeable future. Accordingly, no income tax is accrued on the undistributed earnings of the Company's VIE and subsidiary of the VIE as of December 31, 2017 and September 30, 2018. As of December 31, 2017 and September 30, 2018, the Group's PRC subsidiaries were still in accumulated deficit position.

*Uncertain Tax Position*

The Group did not identify significant unrecognized tax benefits for the nine months ended September 30, 2017 and 2018. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expense and also does not anticipate any significant change in unrecognized tax benefits within 12 months from September 30, 2018.

**22. DEFINED CONTRIBUTION PLAN**

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension insurance, medical insurance unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. Total contributions by the Group for such employee benefits were RMB8,586 thousand and RMB13,856 thousand for the nine months ended September 30, 2017 and 2018, respectively.

For the employees in Hong Kong, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future

**FUTU HOLDINGS LIMITED****NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. DEFINED CONTRIBUTION PLAN (Continued)**

payments is available. Included in employee compensation and benefits expenses in the unaudited interim condensed consolidated statements of comprehensive (loss)/income were HK\$482 thousand and HK\$696 thousand of plan contributions for each of the nine months ended September 30, 2017 and 2018, respectively.

**23. REGULATORY REQUIREMENTS**

Subject to the Securities and Futures (Financial Resources) Rules and the Securities and Futures Ordinance, Futu Securities is required to maintain minimum paid-up share capital. Regulatory capital requirements could restrict the Operating Company from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. As of December 31, 2017 and September 30, 2018, aggregate excess regulatory capital for the Operating Company was HK\$588,673 thousand and HK\$358,012 thousand respectively. As of September 30, 2018, the regulated Operating Company was in compliance with their respective regulatory capital requirements.

**24. COMMITMENTS AND CONTINGENCIES*****Operating Leases***

The Group leases office space under non-cancelable operating lease agreements with initial lease term from one years to five years. Rental expense is recognized from the date of initial possession of the leased property on a straight-line basis over the term of the lease and charged to earnings. Certain lease agreements contain rent holidays, which are recognized on a straight-line basis over the lease term.

Rental expense calculated for the Group was HK\$7,514 thousand and HK\$12,326 thousand for the nine months ended September 30, 2017 and 2018, respectively, and is included in research and development expenses, selling and marketing expense and general and administrative expenses in the unaudited interim condensed consolidated statements of comprehensive (loss)/income. As of September 30, 2018, the Group's minimum annual lease commitments totaled HK\$234,929 thousand, as follows:

<b>Year</b>	<b>HK\$ in thousand</b>
Remainder of 2018	7,674
2019	55,288
2020	51,358
2021	38,751
2022	42,547
2023	39,311
	<u>234,929</u>

***Hong Kong Securities and Futures Commission ("HK SFC") Inquiries and Investigations***

The financial services industry is highly regulated. From time to time, the Operating Company as a HK SFC-licensed corporation may be required to assist in and/or are subject to inquiries and/or investigations by relevant regulatory authorities in Hong Kong, such as the HK SFC. As of the date of this report, the Operating Company is involved in ongoing regulatory inquiries and investigations by the HK SFC where a certain

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. COMMITMENTS AND CONTINGENCIES (Continued)

*Hong Kong Securities and Futures Commission (“HK SFC”) Inquiries and Investigations (Continued)*

conclusion has not been reached. For the nine months ended September 30, 2017 and 2018, the Group did not make any accrual for the aforementioned loss contingency.

25. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth major related parties of the Group and their relationships with the Group:

<u>Entity of individual name</u>	<u>Relationship with the Group</u>
Mr. Leaf Hua Li	Principal shareholder
Tencent Holdings Limited and its subsidiaries (“Tencent Group”)	Principal shareholder
Individual directors and officers	Directors or officers of the Group

The Group utilizes the cloud services provided by Tencent Group to process large amount of complicated data in-house, which reduces the risks involved in data storage and transmission. SMS channel services is provided by Tencent Group, including verification code, notification and marketing message services for the Group to reach its end users. The Group also uses the QQ Wallet and Wechat Wallet platform provided by Tencent Group for cash receipt and payment purpose during daily operation. The Group can withdraw cash balance from the QQ Wallet and Wechat Wallet on demand.

(a) *Cash and cash equivalent*

	<u>As of</u>	
	<u>December 31, 2017</u>	<u>September 30, 2018</u>
	(HK\$ in thousands)	
Cash and cash equivalent	528	612

(b) *Amounts Due from Related Parties*

	<u>As of</u>	
	<u>December 31, 2017</u>	<u>September 30, 2018</u>
	(HK\$ in thousands)	
Advance to individual directors and officers	6,340	6,023
Amount due from Mr. Leaf Hua Li	201	5,247
	<u>6,541</u>	<u>11,270</u>

The amount due from Mr. Leaf Hua Li is cash advance for business purpose. This advance does not bear any interest and with no fixed maturity. The advances to individual directors and offices are advances granted to Mr. Nineway Jie Zhang, Director of the Company, and Mr. Robin Li Xu, Vice President of the Company, bearing interest rate of 4% with maturity from four months to nine months, guaranteed by Mr. Leaf Hua Li. Such advances do not involve more than the normal risk of collectability or present other unfavorable features.

FUTU HOLDINGS LIMITED

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(c) Short-term borrowings

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Short-term borrowings	400,000	200,000

(d) Amounts Due to Related Parties

	As of	
	December 31, 2017	September 30, 2018
	(HK\$ in thousands)	
Amounts Due to Related Parties		
Cloud services from Tencent Group	14,269	3,628
SMS channel services from Tencent Group	418	557
	<u>14,687</u>	<u>4,185</u>

(e) Transactions with Related Parties

	For the Nine Months Ended	
	September 30, 2017	September 30, 2018
	(HK\$ in thousands)	
Interest expenses	2,363	16,719
Cloud service fee	5,654	7,743
SMS channel service fee	761	1,520
Total transaction with related parties	<u>8,778</u>	<u>25,982</u>

Included in receivables from and payables to clients as of December 31, 2017 and September 30, 2018 were accounts receivable from directors and officers of HK\$1 thousand and nil and payables of HK\$234,124 thousand and HK\$309,964 thousand, respectively. The Operating Company also extends credit to these related parties in connection with margin loans, as of December 31, 2017 and September 30, 2018, the margin loans lent to directors and officers amount to HK\$20,101 thousand and HK\$313 thousand, respectively. Such loans are (i) made in the ordinary course of business, (ii) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Operating Company, and (iii) do not involve more than the normal risk of collectability or present other unfavorable features. Revenue earned by providing brokerage services and margin loan to directors and officers amounts to HK\$1,857 thousand and HK\$5,910 thousand for the nine months ended September 30, 2017 and 2018, respectively.

**FUTU HOLDINGS LIMITED**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**26. SUBSEQUENT EVENTS**

On November 8, 2018, the Company granted 9,595,000 share options under the 2014 Share Incentive Plan to employees at exercise price US\$1.20 with vesting period of 5 years.

In December 2018, the Company approved and proposed to adopt a 2019 Share Incentive Plan effective on October 1, 2019, pursuant to which the maximum number of shares of the Company available for issuance pursuant to all awards under this 2019 Share Incentive Plan shall be a number of up to 2% of the total number of shares issued and outstanding on September 29, 2019 as determined by the Board, plus an annual increase on each September 30 during the term of this 2019 Share Incentive Plan commencing on September 30, 2020, by an amount determined by the board of directors; provided, however, that (i) the total number of shares increased in each year shall not be more than 2% of the total number of shares issued and outstanding on September 29 of the same year and (ii) the aggregate number of shares initially reserved and subsequently increased during the term of this 2019 Share Incentive Plan shall not be more than 8% of the total number of shares issued and outstanding on September 29 immediately preceding the most recent increase.

In December 2018, written resolutions were passed by the board of directors of the Company and its shareholders, pursuant to which, below major matters have been approved by the board of directors and its shareholders:

(a) the Group will adopt a dual-class share structure, consisting of Class A ordinary shares and Class B ordinary shares, which will become effective immediately prior to the completion of the Company's initial public offering. Immediately prior to the completion of the initial public offering, (i) the conversion and re-designation of all of the then currently issued and outstanding preferred shares into ordinary shares on a one-to-one basis; (ii) all of the ordinary shares ultimately held by the Company's founder, chairman of the board of directors and chief executive officer, Mr. Leaf Hua Li, and 140,802,051 ordinary shares (including ordinary shares resulting from the conversion and re-designation of preferred shares) held by Qiantang River Investment Limited will be re-designated into Class B ordinary shares on a one-to-one basis and (iii) all of the remaining ordinary shares (including ordinary shares resulting from the conversion and re-designation of preferred shares) will be re-designated into Class A ordinary shares on a one-to-one basis. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares will be entitled to one vote per share, while holders of Class B ordinary shares will be entitled to twenty votes per share.

(b) immediately prior to the completion of the initial public offering, the authorized share capital will be increased from US\$50,000 divided into 5,000,000,000 shares of par value of US\$0.00001 each, to US\$500,000 divided into 50,000,000,000 shares of par value of US\$0.00001 each, of which (i) 48,700,000,000 shall be designated as Class A ordinary shares; (ii) 800,000,000 shall be designated as Class B ordinary shares; and (iii) 500,000,000 shares of such class or classes (however designated) as the board may determine in accordance with the post-offering amended and restated memorandum and articles of association.

**27. UNAUDITED PRO FORMA INFORMATION**

Pursuant to the Company's memorandum and articles of association, the Company's Preferred Shares will be automatically converted into ordinary shares upon a QIPO.

Unaudited pro forma shareholders' equity as of September 30, 2018, as adjusted for the reclassification of the related Preferred Shares from mezzanine equity to shareholders' equity is shown in the unaudited pro forma consolidated balance sheets.

Unaudited pro forma basic and diluted net income per ordinary share reflects the effect of the conversion of Preferred Shares as follows, as if the conversion occurred as of the beginning of the period or the original date of issuance, if later.

## FUTU HOLDINGS LIMITED

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 27. UNAUDITED PRO FORMA INFORMATION (Continued)

	For the Nine Months Ended September 30, 2018 (HK\$ in thousands, except share and per share data)
<b>Basic pro forma net income per share calculation:</b>	
<b>Numerator:</b>	
Net income attributable to ordinary shareholder	25,867
Preferred shares redemption value accretion reversed	50,258
Income allocation to participating preferred shares reversed	24,213
Numerator for pro forma net income per share - basic	<u>100,338</u>
<b>Denominator:</b>	
Weighted average number of ordinary shares used in calculating pro forma net income per share - basic	781,681,094
Pro forma net income per share - basic	<u>0.13</u>
<b>Diluted pro forma net income per share calculation:</b>	
<b>Numerator:</b>	
Net income attributable to ordinary shareholder	25,867
Preferred shares redemption value accretion reversed	50,258
Income allocation to participating preferred shares reversed	24,213
Numerator for pro forma net income per share – diluted	<u>100,338</u>
<b>Denominator:</b>	
Weighted average number of ordinary shares used in calculating pro forma net income per share - basic	781,681,094
Dilutive effect of share options	104,932,862
Weighted average number of ordinary shares used in calculating pro forma net income per share - diluted	886,613,956
Pro forma net income per share - diluted	<u>0.11</u>

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our post-offering amended and restated memorandum and articles of association provide that we shall indemnify each officer or director of our company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such director or officer, other than by reason of such person's own dishonesty, willful default or fraud, in or about the conduct of our company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere.

Pursuant to the form of indemnification agreements filed as Exhibit 10.2 to this Registration Statement, we will agree to indemnify our directors and officers against certain liabilities and expenses that they incur in connection with claims made by reason of their being a director or officer of our company.

The form of Underwriting Agreement to be filed as Exhibit 1.1 to this Registration Statement will also provide for indemnification of us and our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES.**

During the past three years, we have issued the following securities which were not registered under the Securities Act. We believe that each of the following issuance was exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act regarding transactions not involving a public offering or in reliance on Regulation S under the Securities Act regarding sales by an issuer in offshore transactions. No underwriters were involved in these issuances of securities.

On September 22, 2016, we effected a 1 to 500 share split, following which each of our previously issued ordinary shares, Series A preferred shares, Series A-1 preferred shares and Series B preferred shares was subdivided into 500 ordinary shares, Series A preferred shares, Series A-1 preferred shares and Series B preferred shares, respectively.

<u>Purchaser</u>	<u>Date of Issuance</u>	<u>Title and Number of Securities</u>	<u>Consideration</u>
Qiantang River Investment Limited	May 27, 2015	160,715 Series B preferred shares <sup>(1)</sup>	US\$27,263,339
Matrix Partners China III Hong Kong Limited	May 27, 2015	9,740 Series B preferred shares <sup>(1)</sup>	US\$1,652,324

---

[Table of Contents](#)

<u>Purchaser</u>	<u>Date of Issuance</u>	<u>Title and Number of Securities</u>	<u>Consideration</u>
Sequoia Capital CV IV Holdco, Ltd.	May 27, 2015	6,392 Series B preferred shares <sup>(1)</sup>	US\$1,084,337
Image Frame Investment (HK) Limited	May 22, 2017	128,844,812 Series C preferred shares	US\$91,362,437
Matrix Partners China III Hong Kong Limited	May 22, 2017	7,381,311 Series C-1 preferred shares	US\$7,613,100
SCC Venture VI Holdco, Ltd. <sup>(2)</sup>	May 22, 2017	4,843,971 Series C-1 preferred shares	US\$4,996,082

Notes:

- (1) The numbers have not been adjusted to reflect the share split effective on September 22, 2016.  
(2) Affiliate of Sequoia Capital CV IV Holdco, Ltd.

**ITEM 8. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) Exhibits

See Exhibit Index beginning on page II-3 of this registration statement.

(b) Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.

**ITEM 9. UNDERTAKINGS.**

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**FUTU HOLDINGS LIMITED**

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1*	Form of Underwriting Agreement
3.1	<a href="#">Third Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect</a>
3.2	<a href="#">Form of Fourth Amended and Restated Memorandum and Articles of Association of the Registrant, effective immediately prior to the completion of this offering</a>
4.1*	Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3)
4.2*	Registrant's Specimen Certificate for Ordinary Shares
4.3*	Form of Deposit Agreement, among the Registrant, the depositary and holder and beneficial owners of the American Depositary Receipts issued thereunder
4.4	<a href="#">Second Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated May 22, 2017</a>
5.1*	Opinion of Maples and Calder (Hong Kong) LLP regarding the validity of the ordinary shares being registered and certain Cayman Islands tax matters
8.1*	Opinion of Maples and Calder (Hong Kong) LLP regarding certain Cayman Islands tax matters (included in Exhibit 5.1)
8.2	<a href="#">Opinion of CM Law Firm regarding certain PRC tax matters (included in Exhibit 99.2)</a>
10.1	<a href="#">Amended and Restated 2014 Share Incentive Plan</a>
10.2	<a href="#">Form of Indemnification Agreement between the Registrant and its directors and executive officers</a>
10.3	<a href="#">Form of Employment Agreement between the Registrant and its executive officer</a>
10.4	<a href="#">English translation of the second amended and restated shareholders' voting rights proxy agreement among Shensi Beijing, Shenzhen Futu and the shareholders of Shenzhen Futu dated September 28, 2018</a>
10.5	<a href="#">English translation of the second amended and restated business operation agreement among Shensi Beijing, Shenzhen Futu and the shareholders of Shenzhen Futu dated September 28, 2018</a>
10.6	<a href="#">English translation of the executed form of the second amended and restated equity interest pledge agreement among Shensi Beijing, Shenzhen Futu and each of Shenzhen Futu's shareholders, as currently in effect, and a schedule of all executed equity interest pledge agreement adopting the same form in respect of Shenzhen Futu</a>
10.7	<a href="#">English translation of the second amended and restated exclusive technology consulting and services agreement among Shensi Beijing, Shenzhen Futu dated September 28, 2018</a>
10.8	<a href="#">English translation of the second amended and restated exclusive option agreement among Shensi Beijing, Shenzhen Futu and the shareholders of Shenzhen Futu dated September 28, 2018</a>
10.9	<a href="#">English translation of the executed form of the spousal consent letters granted by the spouse of each individual shareholder of Shenzhen Futu, as currently in effect</a>
10.10	<a href="#">Series C Preferred Shares Purchase Agreement between the Registrant and other parties thereto dated May 22, 2017</a>

---

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
21.1	<a href="#"><u>Significant subsidiaries and consolidated affiliated entity of the Registrant</u></a>
23.1	<a href="#"><u>Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent Registered Public Accounting Firm</u></a>
23.2*	Consent of Maples and Calder (Hong Kong) LLP (included in Exhibit 5.1)
23.3	<a href="#"><u>Consent of CM Law Firm (included in Exhibit 99.2)</u></a>
23.4	<a href="#"><u>Consent of Vic Haixiang Li</u></a>
23.5	<a href="#"><u>Consent of Brenda Pui Man Tam</u></a>
24.1	<a href="#"><u>Powers of Attorney (included on signature page)</u></a>
99.1	<a href="#"><u>Code of Business Conduct and Ethics of the Registrant</u></a>
99.2	<a href="#"><u>Opinion of CM Law Firm regarding certain PRC law matters</u></a>
99.4	<a href="#"><u>Consent of Oliver Wyman Consulting (Shanghai) Limited</u></a>
99.5	<a href="#"><u>Registrant's Representation under Item 8.A.4</u></a>

\* To be filed by amendment.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hong Kong, China, on December 28, 2018.

**FUTU HOLDINGS LIMITED**

By: /s/ Leaf Hua Li

Name: Leaf Hua Li

Title: Chairman of the Board of Directors and Chief  
Executive Officer

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints each of Leaf Hua Li and Arthur Yu Chen as attorneys-in-fact with full power of substitution, for him in any and all capacities, to do any and all acts and all things and to execute any and all instruments which said attorney and agent may deem necessary or desirable to enable the registrant to comply with the Securities Act of 1933, as amended (the “Securities Act”), and any rules, regulations and requirements of the Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of ordinary shares of the registrant (the “Shares”), including, without limitation, the power and authority to sign the name of each of the undersigned in the capacities indicated below to the Registration Statement on Form F-1 (the “Registration Statement”) to be filed with the Securities and Exchange Commission with respect to such Shares, to any and all amendments or supplements to such Registration Statement, whether such amendments or supplements are filed before or after the effective date of such Registration Statement, to any related Registration Statement filed pursuant to Rule 462(b) under the Securities Act, and to any and all instruments or documents filed as part of or in connection with such Registration Statement or any and all amendments thereto, whether such amendments are filed before or after the effective date of such Registration Statement; and each of the undersigned hereby ratifies and confirms all that such attorney and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Leaf Hua Li</u> Leaf Hua Li	Chairman of the Board of Directors and Chief Executive Officer (principal executive officer)	December 28, 2018
<u>/s/ Ppchen Weihua Chen</u> Ppchen Weihua Chen	Chief Technology Officer	December 28, 2018
<u>/s/ Arthur Yu Chen</u> Arthur Yu Chen	Chief Financial Officer (principal financial and accounting officer)	December 28, 2018
<u>/s/ Nineway Jie Zhang</u> Nineway Jie Zhang	Director	December 28, 2018
<u>/s/ Shan Lu</u> Shan Lu	Director	December 28, 2018
<u>/s/ Robin Li Xu</u> Robin Li Xu	Vice President	December 28, 2018
<u>/s/ Ching-Yee Joey Poon</u> Ching-Yee Joey Poon	Head of Compliance	December 28, 2018

**SIGNATURE OF AUTHORIZED REPRESENTATIVE IN THE UNITED STATES**

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Futu Holdings Limited, has signed this registration statement or amendment thereto in Newark, Delaware, United States of America on December 28, 2018.

Authorized U.S. Representative

By: /s/ Donald J. Puglisi

Name: Donald J. Puglisi

Title: Managing Director

THE COMPANIES LAW (2016 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

THIRD AMENDED AND RESTATED MEMORANDUM AND

ARTICLES OF ASSOCIATION

OF

---

FUTU HOLDINGS LIMITED

(富途控股有限公司)

---

*(adopted by a special resolution passed on May 22, 2017)*

THE COMPANIES LAW (2016 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

THIRD AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION

OF

FUTU HOLDINGS LIMITED

(富途控股有限公司)

*(adopted by a special resolution passed on May 22, 2017)*

1. The name of the Company is Futu Holdings Limited (in Chinese:富途控股有限公司).
2. The Registered Office of the Company shall be at the office of McGrath Tonner Corporate Services Limited, Genesis Building, 5th Floor, Genesis Close, George Town, PO Box 446, Grand Cayman, Cayman Islands, or at such other place as the Directors may from time to time decide.
3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2016 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.
4. The liability of each Member is limited to the amount from time to time unpaid on such Member's Shares.
5. The authorized share capital of the Company is: US\$50,000.00 divided into 5,000,000,000 shares: (i) 4,622,068,906 Ordinary Shares of par value US\$0.00001 each, (ii) 125,000,000 redeemable participating Series A Preferred Shares of par value US\$0.00001 each, (iii) 23,437,500 redeemable participating Series A-1 Preferred Shares of par value US\$0.00001 each, (iv) 88,423,500 redeemable participating Series B Preferred Shares of par value US\$0.00001 each and (v) 128,844,812 redeemable participating Series C Preferred Shares of par value US\$0.00001 each, and (vi) 12,225,282 redeemable participating Series C-1 Preferred Shares of par value US\$0.00001 each.

- 
6. If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 174 of the Companies Law (2016 Revision) and, subject to the provisions of the Companies Law (2016 Revision) and the Articles of Association, it shall have the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
  7. Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

THE COMPANIES LAW (2016 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

THIRD AMENDED AND RESTATED ARTICLES OF ASSOCIATION

OF

FUTU HOLDINGS LIMITED

(富途控股有限公司)

*(adopted by a special resolution passed on May 22, 2017)*

***INTERPRETATION***

1. In these Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

**“Additional Consideration”**

shall have the meaning set forth in Article 8.2(D).

**“Affiliate”**

means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person. In the case of an Investor, the term “Affiliate” also includes (i) any shareholder of such Investor, (ii) any of such shareholder’s or such Investor’s current or retired general partners or limited partners, (iii) the fund manager managing such shareholder or such Investor (and general partners, limited partners, officers, and directors thereof) and other funds managed by such fund manager, (iv) any venture capital fund now or hereafter existing which is Controlled by or under common Control with one or more general partners or shares the same management company with such Person, and (v) trusts Controlled by or for the benefit of any such Person referred to in (i), (ii), (iii), or (iv). Notwithstanding the foregoing, it is acknowledged and agreed that (a) the name “Sequoia Capital” is commonly used to describe a variety of entities (collectively, the “**Sequoia Entities**”) that are affiliated by ownership or operational relationship and engaged in a broad range of activities related to investing and securities trading and (b) notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not be binding on, or restrict the activities of, any (i) Sequoia Entity outside of the Sequoia China Sector Group or (ii) entity primarily engaged in investment and trading in the secondary securities market. For purposes of the foregoing, the “**Sequoia China Sector Group**” means all Sequoia Entities (whether currently existing or formed in the future) that are principally focused on companies located in, or with connections to, the PRC.

---

<b>“Applicable Rate”</b>	means the average exchange rate calculated based on the average daily exchange rate between any two currencies (as determined by reference to the rates reported by the People’s Bank of China) that prevailed during the five (5) days’ period immediately preceding the date on which reference to the relevant currencies is made.
<b>“Approved Sale”</b>	shall have the meaning set forth in Article 124.
<b>“Associate”</b>	means, with respect to any Person, (1) a corporation or organization (other than the Group Companies) of which such Person is an officer or partner or is, directly or indirectly, the beneficial owner of five percent (5%) or more of any class of Equity Securities of such corporation or organization, (2) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar capacity, or (3) any relative or spouse of such Person, or any relative of such spouse.
<b>“Articles”</b>	means these articles of association of the Company as originally formed or as from time to time altered by Special Resolution.
<b>“Auditor”</b>	means the Person for the time being performing the duties of auditor of the Company (if any).
<b>“Automatic Conversion”</b>	shall have the meaning set forth in Article 8.3C) hereof.

---

<b>“Board” or “Board of Directors”</b>	means the board of directors of the Company.
<b>“Business”</b>	means the business of securities brokerage and related services.
<b>“Business Day”</b>	means any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in the Cayman Islands, the PRC or Hong Kong.
<b>“Charter Documents”</b>	means, with respect to any Group Company, the articles of incorporation, certificate of incorporation, formation or registration (including, if applicable, certificates of change of name), memorandum of association, articles of association, bylaws, articles of organization, limited liability company agreement, trust deed, trust instrument, operating agreement, joint venture agreement, business license, or similar or other constitutive, governing, or charter documents, or equivalent documents, of such Group Company.
<b>“Company”</b>	means the above named company, i.e., Futu Holdings Limited (富途控股有限公司).
<b>“Consent”</b>	shall have the meaning set forth in Article 120.
<b>“Control”</b>	of a given Person means the power or authority, whether exercised or not, to direct the business, management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided, that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.
<b>“Conversion Price”</b>	shall have the meaning set forth in Article 8.3A) hereof.
<b>“Conversion Shares”</b>	means Ordinary Shares issuable upon conversion of any Preferred Shares.

---

**“Convertible Securities”**

shall have the meaning set forth in Article 8.3E(4)(a)(ii) hereof.

**“Deemed Liquidation Event”**

means any of the following events, unless waived in writing by the Requisite Holders:

(1) any consolidation, amalgamation, scheme of arrangement or merger of any Group Company with or into any other Person or other reorganization in which the Members or shareholders of such Group Company immediately prior to such consolidation, amalgamation, merger, scheme of arrangement or reorganization own less than fifty percent (50%) of such Group Company’s voting power in the aggregate immediately after such consolidation, merger, amalgamation, scheme of arrangement or reorganization, or any transaction or series of related transactions to which such Group Company is a party in which in excess of fifty percent (50%) of such Group Company’s voting power is transferred;

(2) a sale, transfer, lease or other disposition of all or substantially all of the assets of any Group Company (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of such Group Company);

(3) the exclusive and irrevocable licensing of all or substantially all of any Group Company’s Intellectual Property to a third party; or

(4) a transaction or series of related transactions in which a Person, or a group of related Persons, acquires any Equity Securities of the Company such that, immediately after such transaction or series of related transactions, such Person or group of related Persons holds Equity Securities of the Company representing more than fifty percent (50%) of the outstanding voting power of the Company.

**“Director”**

means a director serving on the Board for the time being of the Company and shall include an alternate Director appointed in accordance with these Articles.

---

<b>“Drag-Along Notice”</b>	shall have the meaning set forth in Article 124.
<b>“Drag Holders”</b>	shall have the meaning set forth in Article 124.
<b>“Electronic Record”</b>	has the same meaning as given in the Electronic Transactions Law (2003 Revision).
<b>“Equity Securities”</b>	means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing, or any contract providing for the acquisition of any of the foregoing.
<b>“Excepted Issuances”</b>	shall have the meaning set forth in Article 8.3E(4)(a)(iii) hereof.
<b>“Exempted Distribution”</b>	means (a) the purchase, repurchase or redemption of Ordinary Shares by the Company at no more than cost from terminated employees, officers, consultants or other holders of such Ordinary Shares in accordance with the ESOP, or pursuant to the exercise of a contractual right of first refusal held by the Company under the Right of First Refusal and Co-Sale Agreement, or pursuant to written contractual arrangements with the Company approved by the Board (so long as such approval includes the approvals of the Tencent Director), (b) the purchase, repurchase or redemption of the Preferred Shares pursuant to these Articles (including in connection with the conversion of such Preferred Shares into Ordinary Shares), and (c) the payment of dividends to the holders of the Preferred Shares in accordance with Article 8.1 hereof.
<b>“ESOP”</b>	means the employee share incentive plan of the Company to be adopted by the Company in accordance with Article 8.4, covering the grant of up to 135,032,132 Ordinary Shares (or options therefor) (as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events) to employees, officers, directors, or consultants of a Group Company.

---

<b>“Futu BJ”</b>	means Beijing Futu Internet Technology Co., Ltd. (北京市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC.
<b>“Futu Internet SZ”</b>	means Futu Internet Technology (Shenzhen) Co., Ltd. (富途网络科技(深圳)有限公司), a company duly incorporated and validly existing under the Laws of the PRC.
<b>“Futu Int’l HK”</b>	means Futu Securities International (Hong Kong) Limited (富途证券国际(香港)有限公司), a company incorporated under the Laws of Hong Kong.
<b>“Futu Network”</b>	means Futu Network Technology Limited (富途网络科技有限公司), a company incorporated under the Laws of Hong Kong.
<b>“Futu New HK”</b>	means Futu Securities (Hong Kong) Limited (富途证券(香港)有限公司), a company incorporated under the Laws of Hong Kong.
<b>“Futu NZ”</b>	means Futu NZ Limited, a company incorporated under the laws of New Zealand.
<b>“Futu SZ”</b>	means Shenzhen Futu Internet Technology Co., Ltd. (深圳市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC.
<b>“Futu US”</b>	means Futu, Inc., a corporation incorporated under the laws of the State of Delaware, United States.
<b>“Governmental Authority”</b>	means any government of any nation or any federation, province or state or any other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the PRC or any other country, or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization.

---

<b>“Group Company”</b>	means each of the Company, Futu Int’l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting, the WFOE, together with each Subsidiary of any of the foregoing, and <b>“Group”</b> or <b>“Group Companies”</b> refers to all of the Group Companies collectively.
<b>“Image Frame”</b>	means Image Frame Investment (HK) Limited 意像架構投資(香港)有限公司, a company incorporated under the Laws of the Hong Kong, and its successors permitted transferees, and assigns.
<b>“Indebtedness”</b>	of any Person means, without duplication, each of the following of such Person: (i) all indebtedness for borrowed money, (ii) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business), (iii) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (iv) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced that are incurred in connection with the acquisition of properties, assets or businesses, (v) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (vi) all obligations that are capitalized in accordance with the applicable accounting standards, (vii) all obligations under banker’s acceptance, letter of credit or similar facilities, (viii) all obligations to purchase, redeem, retire, defease or otherwise acquire for value any Equity Securities of such Person, (ix) all obligations in respect of any interest rate swap, hedge or cap agreement, and (x) all guarantees issued in respect of the Indebtedness referred to in clauses (i) through (ix) above of any other Person, but only to the extent of the Indebtedness guaranteed.

---

<b>“Initial Redemption Notice”</b>	shall have the meaning set forth in Article 8.5(A).
<b>“Initiating Holders”</b>	shall have the meaning set forth in Article 8.5(A).
<b>“Intellectual Property”</b>	means any and all (i) patents, patent rights and applications therefor and reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (ii) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (iii) registered and unregistered copyrights, copyright registrations and applications, mask works and registrations and applications therefor, author’s rights and works of authorship (including artwork, software, computer programs, source code, object code and executable code, firmware, development tools, files, records and data, and related documentation), (iv) URLs, web sites, web pages and any part thereof, (v) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications, proprietary data, customer lists, databases, proprietary processes, technology, formulae, and algorithms and other intellectual property, (vi) trade names, trade dress, trademarks, domain names, service marks, logos, business names, and registrations and applications therefor, and (vii) the goodwill symbolized or represented by the foregoing.
<b>“Interested Transaction”</b>	shall have the meaning set forth in Article 83 hereof.
<b>“Investor” or “Investors”</b>	means Qiantang River, Image Frame, Matrix, and Sequoia.
<b>“Issue Date”</b>	means, with respect to the Series A Preferred Shares, the date of the first issuance of Series A Preferred Shares, with respect to the Series A-1 Preferred Shares, the date of the first issuance of Series A-1 Preferred Shares, with respect to the Series B Preferred Shares, the date of the first issuance of Series B Preferred Shares, with respect to the Series C Preferred Shares, the date of the first issuance of Series C Preferred Shares, and with respect to the Series C-1 Preferred Shares, the date of the first issuance of Series C-1 Preferred Shares.

---

<b>“Issue Price”</b>	means, with respect to the Series A Preferred Shares, the Series A Issue Price, with respect to the Series A-1 Preferred Shares, the Series A-1 Issue Price, with respect to the Series B Preferred Shares, the Series B Issue Price, with respect to the Series C Preferred Shares, the Series C Issue Price, and with respect to the Series C-1 Preferred Shares, the Series C-1 Issue Price.
<b>“Lien”</b>	means any claim, charge, easement, encumbrance, lease, covenant, security interest, lien, option, pledge, rights of others, or restriction (whether on voting, sale, transfer, disposition or otherwise), whether imposed by contract, understanding, law, equity or otherwise.
<b>“Majority Ordinary Holders”</b>	mean the holders of more than 50% of the voting power of the outstanding Ordinary Shares (voting together as a single class).
<b>“Majority Preferred Holders”</b>	mean the holders of more than 50% of the voting power of the outstanding Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis).
<b>“Majority Series A and Series A-1 Preferred Holders”</b>	mean the holders of more than 50% of the voting power of the outstanding Series A Preferred Shares and Series A-1 Preferred Shares (voting together as a single class and on an as-converted basis).
<b>“Majority Series B Preferred Holders”</b>	mean the holders of more than 50% of the voting power of the outstanding Series B Preferred Shares (voting together as a single class and on an as-converted basis).
<b>“Majority Series C and Series C-1 Preferred Holders”</b>	mean the holders of more than 50% of the voting power of the outstanding Series C Preferred Shares and Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis).

---

<b>“Material Adverse Effect”</b>	means any (i) event, occurrence, fact, condition, change or development that has had, has, or could reasonably be expected to have, individually or together with other events, occurrences, facts, conditions, changes or developments, a material adverse effect on the business, properties, assets, employees, operations, results of operations, condition (financial or otherwise), prospects, assets or liabilities of a Group Company, taken as a whole, (ii) material impairment of the ability of any party (other than the Investors) to perform the material obligations of such party under any Transaction Documents, or (iii) material impairment of the validity or enforceability any Transaction Document against any party thereto (other than the Investors).
<b>“Matrix”</b>	means Matrix Partners China III Hong Kong Limited, a company incorporated under the Laws of Hong Kong, and its successors, permitted transferees, and assigns.
<b>“Member”</b>	has the same meaning as in the Statute.
<b>“Memorandum”</b>	means the memorandum of association of the Company.
<b>“New Securities”</b>	shall have the meaning set forth in Article 8.3E(4)(a)(iii) hereof.
<b>“Non-Compliance Date”</b>	shall have the meaning set forth in Article 121.
<b>“Non-Compliance Shares”</b>	shall have the meaning set forth in Article 120.
<b>“Offeror”</b>	shall have the meaning set forth in Article 124.
<b>“Options”</b>	shall have the meaning set forth in Article 8.3E(4)(a)(i) hereof.
<b>“Ordinary Directors”</b>	shall have the meaning set forth in Article 63.
<b>“Ordinary Resolution”</b>	means a resolution of a duly constituted general meeting of the Company passed by a simple majority of the votes cast by, or on behalf of, the Members entitled to vote present in person or by proxy and voting at the meeting, or a written resolution as provided in Article 41.2.

---

<b>“Ordinary Share”</b>	means an ordinary share of US\$0.00001 par value per share in the capital of the Company having the rights attaching to it as set out herein.
<b>“Person”</b>	means any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity.
<b>“PRC”</b>	means the People’s Republic of China, but solely for the purposes hereof excludes the Hong Kong Special Administrative Region, Macau Special Administrative Region and the islands of Taiwan.
<b>“Preferred Shares”</b>	means the Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series C-1 Preferred Shares.
<b>“Principals”</b>	means the following individuals: LI Hua (李华) and LI Lei (李轡).
<b>“Purchase Agreement”</b>	means the Share Purchase Agreement, dated May 22, 2017, among the Company, the Group Companies (other than the Company), the Investors, the WFOE, and the Principals, as amended from time to time.
<b>“Qiantang River”</b>	means Qiantang River Investment Limited, a company incorporated under the Laws of the British Virgin Islands, and its successors permitted transferees, and assigns.
<b>“Qualified IPO”</b>	means the closing of a firm commitment underwritten public offering of the Ordinary Shares of the Company (or depositary receipts or depositary shares therefor) on the main board of the Stock Exchange of Hong Kong Limited, NASDAQ, New York Exchange, or other internationally recognized securities exchange agreed to by the Company and the Requisite Holders at a public offering price per share corresponding to a valuation of the Company of at least US\$1 billion or more on a fully diluted basis immediately following the completion of such offering, and also raising a financing amount no less than US\$200 million (net of underwriters discounts and commissions).
<b>“Redeeming Preferred Share”</b>	shall have the meaning set forth in Article 8.5(A).

---

<b>“Redeeming Preferred Shareholder”</b>	shall have the meaning set forth in Article 8.5(A).
<b>“Redemption Notice”</b>	shall have the meaning set forth in Article 8.5(A).
<b>“Redemption Price”</b>	shall have the meaning set forth in Article 8.5(D).
<b>“Redemption Price Payment Date”</b>	shall have the meaning set forth in Article 8.5(D).
<b>“Registered Holder”</b>	shall have the meaning set forth in Article 121.
<b>“Registered Office”</b>	means the registered office for the time being of the Company.
<b>“Register of Members”</b>	means the register maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate Register of Members.
<b>“Related Party”</b>	means any Affiliate, officer, director, supervisory board member, employee, or holder of any Equity Security of any Group Company, and any Affiliate or Associate of any of the foregoing.
<b>“Requisite Holders”</b>	means (i) the holders of at least 75% of the voting power of the issued and outstanding Series A and Preferred Shares and Series A-1 Preferred Shares (voting together as a single class and on an as-converted basis), (ii) the holders of at least 75% of the voting power of the issued and outstanding Series B Preferred Shares (voting together as a single class and on an as-converted basis), and (iii) the holders of at least 75% of the voting power of the issued and outstanding Series C Preferred Shares and Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis).
<b>“Right of First Refusal and Co-Sale Agreement”</b>	means the Second Amended and Restated Right of First Refusal and Co-Sale Agreement, dated May 27, 2015 among the Company and certain other parties named therein, as amended from time to time.
<b>“Series A Issue Price”</b>	means initially US\$28.00 (and after taking into account a share split on September 22, 2016, US\$0.056), as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events with respect to the Series A Preferred Shares.

---

<b>“Series A Preference Amount”</b>	shall have the meaning set forth in Article 8.2A(3).
<b>“Series A Preferred Share”</b>	means a Series A Preferred Share of US\$0.00001 par value per share in the capital of the Company having the rights, preference and privileges attaching to it as set out herein.
<b>“Series A-1 Issue Price”</b>	means initially US\$32.00 (and after taking into account a share split on September 22, 2016, US\$0.064), as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events with respect to the Series A-1 Preferred Shares.
<b>“Series A-1 Preferred Share”</b>	means a Series A-1 Preferred Share of US\$0.00001 par value per share in the capital of the Company having the rights, preference and privileges attaching to it as set out herein.
<b>“Series A Redemption Date”</b>	shall have the meaning set forth in Article 8.5(E).
<b>“Series A Redemption Price”</b>	shall have the meaning set forth in Article 8.5(D).
<b>“Series A Redemption Price Payment Date”</b>	shall have the meaning set forth in Article 8.5(D).
<b>“Series B Issue Price”</b>	means initially US\$169.64 (and after taking into account a share split on September 22, 2016, US\$0.34), as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events with respect to the Series B Preferred Shares.
<b>“Series B Preference Amount”</b>	shall have the meaning set forth in Article 8.2A(2).
<b>“Series B Preferred Share”</b>	means a Series B Preferred Share of US\$0.00001 par value per share in the capital of the Company having the rights, preference and privileges attaching to it as set out herein.
<b>“Series B Redemption Date”</b>	shall have the meaning set forth in Article 8.5(E).
<b>“Series B Redemption Price”</b>	shall have the meaning set forth in Article 8.5(C).

---

<b>“Series B Redemption Price Payment Date”</b>	shall have the meaning set forth in Article 8.5(C).
<b>“Series C Issue Price”</b>	means US\$0.71, as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events with respect to the Series C Preferred Shares.
<b>“Series C Preference Amount”</b>	shall have the meaning set forth in Article 8.2A(1).
<b>“Series C Preferred Share”</b>	means a Series C Preferred Share of US\$0.00001 par value per share in the capital of the Company having the rights, preference and privileges attaching to it as set out herein.
<b>“Series C Redemption Date”</b>	shall have the meaning set forth in Article 8.5(E).
<b>“Series C Redemption Price”</b>	shall have the meaning set forth in Article 8.5(B).
<b>“Series C Redemption Price Payment Date”</b>	shall have the meaning set forth in Article 8.5(B).
<b>“Series C-1 Issue Price”</b>	means US\$1.03, as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events with respect to the Series C-1 Preferred Shares.
<b>“Series C-1 Preferred Share”</b>	means a Series C-1 Preferred Share of US\$0.00001 par value per share in the capital of the Company having the rights, preference and privileges attaching to it as set out herein.
<b>“Seal”</b>	means the common seal of the Company and includes every duplicate seal.
<b>“Sequoia”</b>	means, collectively, Sequoia Capital CV IV Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands, SCC Venture VI Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands, and their respective successors, permitted transferees, and assigns.
<b>“Share” and “Shares”</b>	means a share or shares in the capital of the Company and includes a fraction of a share.

---

<b>“Shareholders Agreement”</b>	means the Second Amended and Restated Shareholders Agreement, dated May 27, 2015 among the Company and certain other parties named therein, as amended from time to time.
<b>“Shidai Consulting”</b>	means Shenzhen Shidai Futu Consulting Limited (深圳市时代富途咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC.
<b>“Special Resolution”</b>	has the same meaning as in the Statute and includes a unanimous written resolution of all Members entitled to vote and expressed to be a special resolution.
<b>“Statute”</b>	means the Companies Law of the Cayman Islands as amended and every statutory modification or re-enactment thereof for the time being in effect.
<b>“Subsidiary”</b>	means, with respect to any given Person, any other Person that is Controlled directly or indirectly by such given Person. With respect to the Company, its Subsidiaries shall include the Futu Int’l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting, and the WFOE.
<b>“Tencent”</b>	means, collectively, Image Frame and Qiantang River, and their respective successors permitted transferees, and assigns.
<b>“Tencent Director”</b>	shall have the meaning set forth in Article 63.
<b>“Transaction Documents”</b>	has the meaning set forth in the Purchase Agreement.
<b>“Qianhai Consulting”</b>	means Shenzhen Qianhai Fuzhitu Investment Consulting Management Limited (深圳市前海富之途投资咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC.

**“Valuation”**

means the aggregate equity value of the Company that a willing buyer would pay a willing seller to acquire the Company in an arm’s length transaction in connection with the applicable transaction; provided that if (a) a majority of the Board, and (b) the Drag Holders on the other hand, cannot mutually agree on such equity value, such equity value shall be determined by a qualified, recognized appraiser of international standing (such as, by way of example only, the valuation group of a “Big-4” accounting firm or a global investment bank with substantial experience in valuing companies) approved in good faith by the Board (which shall include the approval of the Tencent Director).

**“WFOE”**

means Shen Si Internet Technology (Beijing) Co., Ltd. (慎思网络技术(北京)有限公司), a wholly foreign owned enterprise duly incorporated and validly existing under the Laws of the PRC.

2. In the Articles:

- 2.1 words importing the singular number include the plural number and vice-versa;
- 2.2 words importing the masculine gender include the feminine gender;
- 2.3 “written” and “in writing” include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;
- 2.4 references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;
- 2.5 any phrase introduced by the terms “including,” “include,” “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- 2.6 the term “voting power” refers to the number of votes attributable to the Shares (on an as-converted basis) in accordance with the terms of the Memorandum and Articles;
- 2.7 the term “or” is not exclusive;
- 2.8 the term “including” will be deemed to be followed by, “but not limited to”;
- 2.9 the terms “shall”, “will”, and “agrees” are mandatory, and the term “may” is permissive;
- 2.10 the term “day” means “calendar day”, and “month” means calendar month;
- 2.11 the phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning;
- 2.12 references to any documents shall be construed as references to such document as the same may be amended, supplemented or novated from time to time;

- 
- 2.13 all references to dollars or to "US\$" are to currency of the United States of America, all references to RMB are to currency of the PRC, and all references to HK\$ are to the currency of Hong Kong (and each shall be deemed to include reference to the equivalent amount in other currencies calculated in accordance with the Applicable Rate); and
- 2.14 headings are inserted for reference only and shall be ignored in construing these Articles.
3. For the avoidance of doubt, each other Article herein is subject to the provisions of Articles 8, and, subject to the requirements of the Statute, in the event of any conflict, the provisions of Articles 8 shall prevail over any other Article herein.

#### ***COMMENCEMENT OF BUSINESS***

4. The business of the Company may be commenced after incorporation as soon as the Directors shall see fit notwithstanding that any part of the Shares may not have been allotted. The Company shall have perpetual existence until wound up or struck off in accordance with the Statute and these Articles.
5. The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

#### ***ISSUE OF SHARES***

6. Subject to (i) the provisions of Section 7 of the Shareholders Agreement, (ii) the provisions, if any, in the Memorandum (and to any direction that may be given by the Company in a general meeting), and (iii) to the provisions of Articles 8 and 9 and without prejudice to any rights, preferences and privileges attached to any existing Shares, the Directors may allot, issue, grant options or warrants over or otherwise dispose of four classes of Shares to be designated, respectively, as Ordinary Shares, Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, and Series C-1 Preferred Shares. In the event that any Preferred Shares shall be converted pursuant to Article 8.3 hereof, the Preferred Shares so converted shall be cancelled and shall not be re-issuable by the Company. Further, any Preferred Share acquired by the Company by reason of redemption, repurchase, conversion or otherwise shall be cancelled and shall not be re-issuable by the Company.
7. The Company shall not issue Shares to bearer.

---

**PREFERRED SHARES**

8. Certain rights, preferences and privileges of the Preferred Shares of the Company are as follows:

8.1 **Dividends Rights.**

A. **Preference.**

Each holder of a Preferred Share shall be entitled to receive dividends prior and in preference to, and satisfied before, any dividend on the Ordinary Shares (except for applicable Exempted Distributions). Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be non-cumulative.

B. **Restrictions; Participation.**

Except for an Exempted Distribution, no dividend or distribution, whether in cash, in property, or in any other shares of the Company, shall be declared, paid, set aside or made with respect to the Ordinary Shares at any time unless (i) all accrued but unpaid dividends on the Preferred Shares set forth in Article 8.1A) have been paid in full, and (ii) a dividend or distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding Preferred Share such that the dividend or distribution declared, paid, set aside or made to the holder thereof shall be equal to the dividend or distribution that such holder would have received pursuant to this Article 8.1B) if such Preferred Share had been converted into Ordinary Shares immediately prior to the record date for such dividend or distribution, or if no such record date is established, the date such dividend or distribution is made.

8.2 **Liquidation Rights.**

A. **Liquidation Preferences.**

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Members (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the Members of the Company as follows:

- (1) First, the holders of the Series C Preferred Shares and Series C-1 Preferred Shares shall be entitled to receive for each Series C Preferred Share and Series C-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, the amount equal to 100% of the Series C Issue Price or the Series C-1 Issue Price (as applicable), plus all accrued but unpaid dividends on such Series C Preferred Share and Series C-1 Preferred Share, as applicable (collectively, the "**Series C Preference Amount**"). If the assets and funds thus distributed among the holders of the Series C Preferred Shares and Series C-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Series C Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series C Preferred Shares and Series C-1 Preferred Shares in proportion to the Series C Preference Amount each such holder is otherwise entitled to receive pursuant to this clause (1).

- 
- (2) Second, if there are any assets or funds remaining after the aggregate Series C Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares and Series C-1 Preferred Shares pursuant to clause (1) above, the holders of the Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, the amount equal to 100% of the Series B Issue Price, plus all accrued but unpaid dividends on such Series B Preferred Share (collectively, the “**Series B Preference Amount**”). If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the Series B Preference Amount each such holder is otherwise entitled to receive pursuant to this clause (2).
- (3) Thirdly, if there are any assets or funds remaining after the aggregate Series C Preference Amount and Series B Preference Amount has been distributed or paid in full to the applicable holders of Series C Preferred Shares, Series C-1 Preferred Shares and Series B Preferred Shares pursuant to clauses (1) and (2) above, respectively, the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be entitled to receive for each Series A Preferred Share and Series A-1 Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the remaining assets or funds of the Company to the holders of Ordinary Shares by reason of their ownership of such shares, the amount equal to 100% of the Series A Issue Price or the Series A-1 Issue Price, as applicable, plus all accrued but unpaid dividends on such Series A Preferred Share and Series A-1 Preferred Share, as applicable (collectively, the “**Series A Preference Amount**”). If the assets and funds thus distributed among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares and Series A-1 Preferred Shares in proportion to the Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this clause (3).

- 
- (4) If there are any assets or funds remaining after the aggregate of the Series A Preference Amount, Series B Preference Amount and Series C Preference Amount have been distributed or paid in full to the applicable holders of Preferred Shares pursuant to clauses (1), (2) and (3) above, the remaining assets and funds of the Company available for distribution to the Members shall be distributed ratably among all Members according to the relative number of Ordinary Shares held by such Member on an as-converted and fully diluted basis.

B. **Deemed Liquidation Event.**

A Deemed Liquidation Event shall be deemed to be a liquidation, dissolution or winding up of the Company for purposes of Article 8.2A), and any proceeds, whether in cash or properties, resulting from a Deemed Liquidation Event shall be distributed in accordance with the terms of Article 8.2A).

C. **Valuation of Properties.**

In the event the Company proposes to distribute assets other than cash in connection with any liquidation, dissolution or winding up of the Company pursuant to Article 8.2A), pursuant to a Deemed Liquidation Event of the Company pursuant to Article 8.2B), the value of the assets to be distributed to the Members shall be determined in good faith by the Board; provided that any securities not subject to an investment letter or similar restrictions on free marketability shall be valued as follows:

- (1) If traded on a securities exchange, the value shall be deemed to be the average of the security's closing prices on such exchange over the thirty (30) day period ending one (1) Business Day prior to the distribution;
- (2) If traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) day period ending three (3) Business Days prior to the distribution; and
- (3) If there is no active public market, the value shall be the fair market value thereof as determined in good faith by the Board;

provided further that the method of valuation of securities subject to an investment letter or other restrictions on free marketability shall be adjusted to make an appropriate discount from the market value determined as above in clauses (1), (2) or (3) to reflect the fair market value thereof as determined in good faith by the Board.

---

Regardless of the foregoing, the Majority Preferred Holders shall have the right to challenge any determination by the Board of value pursuant to this Article 8.2C), in which case the determination of value shall be made by an independent appraiser selected jointly by the Board and the Majority Preferred Holders, with the cost of such appraisal to be borne by the Company.

D. **Allocation of Escrow and Contingent Consideration.**

In the event of a Deemed Liquidation Event, if any portion of the consideration payable to the Members is payable only upon satisfaction of contingencies (the “**Additional Consideration**”), the agreement entered into with the Persons providing the consideration in connection with such Deemed Liquidation Event shall provide that (a) the portion of such consideration that is not Additional Consideration (such portion, the “**Initial Consideration**”) shall be allocated among the Members in accordance with Article 8.2A) as if the Initial Consideration were the only consideration payable in connection with such Deemed Liquidation Event; and (b) any Additional Consideration which becomes payable to the Members upon satisfaction of such contingencies shall be allocated among the Members in accordance with Article 8.2A) after taking into account the previous payment of the Initial Consideration as part of the same transaction. For the purposes of this Article 8.2D), consideration placed into escrow or retained as holdback to be available for satisfaction of indemnification or similar obligations in connection with such Deemed Liquidation Event shall be deemed to be Additional Consideration.

E. **Notices.**

In the event that the Company shall propose at any time to consummate a liquidation, dissolution or winding up of the Company, a Deemed Liquidation Event, or a required liquidation event, then, in connection with each such event, subject to any necessary approval required in the Statute and these Articles, the Company shall send to the holders of Preferred Shares at least twenty (20) Business Days prior written notice of the date when the same shall take place; provided, however, that the foregoing notice periods may be shortened or waived with the vote or written consent of the Majority Preferred Holders.

F. **Enforcement.**

In the event the requirements of this Article 8.2 are not complied with, the Company shall forthwith either (i) cause the closing of the applicable transaction to be postponed until such time as the requirements of this Article 8.2 have been complied with, or (ii) cancel such transaction.

---

8.3 **Conversion Rights**

The holders of the Preferred Shares shall have the rights described below with respect to the conversion of the Preferred Shares into Ordinary Shares:

A. **Conversion Ratio.**

The number of Ordinary Shares to which a holder shall be entitled upon conversion of each Preferred Share shall be the quotient of the applicable Issue Price divided by the then effective conversion price (the “**Conversion Price**”), which shall initially be the applicable Issue Price, resulting in an initial conversion ratio for each Preferred Share of 1:1.

B. **Optional Conversion.**

Subject to the Statute and these Articles, any Preferred Share may, at the option of the holder thereof, be converted at any time after the date of issuance of such shares, without the payment of any additional consideration, into fully-paid and non assessable Ordinary Shares based on the then-effective Conversion Price.

C. **Automatic Conversion.**

Each Preferred Share shall automatically be converted, based on the then-effective Conversion Price, without the payment of any additional consideration, into fully-paid and non assessable Ordinary Shares upon the earlier of (i) the occurrence of a Qualified IPO, (ii) the date specified by written consent or agreement of the Requisite Holders. Any conversion pursuant to this Article 8.3C) shall be referred to as an “**Automatic Conversion**”.

D. **Conversion Mechanism.**

The conversion hereunder of any applicable Preferred Share shall be effected in the following manner:

- (1) Except as provided in Articles 8.3D(2) and 8.3D(3) below, before any holder of any Preferred Shares shall be entitled to convert the same into Ordinary Shares, such holder shall surrender the certificate or certificates therefor (if any) (or in lieu thereof shall deliver an affidavit of lost certificate and indemnity therefor) at the office of the Company or of any transfer agent for such share to be converted and shall give notice to the Company at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for Ordinary Shares are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver at such office to such holder of applicable Preferred Shares, or to the nominee or nominees of such holder, a certificate or certificates for the number of Ordinary Shares to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such notice and registration of the Preferred Shares to be converted, the Register of Members of the Company shall be updated accordingly to reflect the same, and the Person or Persons entitled to receive the Ordinary Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Ordinary Shares as of such date.

- 
- (2) If the conversion is in connection with an underwritten public offering of securities, the conversion will be conditional upon the closing with the underwriter(s) of the sale of securities pursuant to such offering and the Person(s) entitled to receive the Ordinary Shares issuable upon such conversion shall not be deemed to have converted the applicable Preferred Shares until immediately prior to the closing of such sale of securities.
- (3) Upon the occurrence of an event of Automatic Conversion, all holders of Preferred Shares to be automatically converted will be given at least ten (10) Business Days' prior written notice of the date fixed (which date shall in the case of a Qualified IPO be the latest practicable date immediately prior to the closing of the Qualified IPO) and the place designated for automatic conversion of all such Preferred Shares pursuant to this Article 8.3D). Such notice shall be given pursuant to Articles 109 through 113 to each record holder of such Preferred Shares at such holder's address appearing on the register of members. On or before the date fixed for conversion, each holder of such Preferred Shares shall surrender the applicable certificate or certificates (if any) (or in lieu thereof shall deliver an affidavit of lost certificate and indemnity therefor) for all such shares to the Company at the place designated in such notice. On the date fixed for conversion, the Company shall promptly effect such conversion and update its register of members to reflect such conversion, and all rights with respect to such Preferred Shares so converted will terminate, with the exception of the right of a holder thereof to receive the Ordinary Shares issuable upon conversion of such Preferred Shares, and upon surrender of the certificate or certificates therefor (if any) (or in lieu thereof shall deliver an affidavit of lost certificate and indemnity therefor), to receive certificates (if applicable) for the number of Ordinary Shares into which such Preferred Shares have been converted. All certificates evidencing such Preferred Shares shall, from and after the date of conversion, be deemed to have been retired and cancelled and the Preferred Shares represented thereby converted into Ordinary Shares for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date.

- 
- (4) The Company may effect the conversion of Preferred Shares in any manner available under applicable law, including redeeming or repurchasing the relevant Preferred Shares and applying the proceeds thereof towards payment for the new Ordinary Shares. For purposes of the repurchase or redemption under this Article 8.3D(4), the Company may, subject to the Company being able to pay its debts in the ordinary course of business, make payments out of its capital.
  - (5) No fractional Ordinary Shares shall be issued upon conversion of any Preferred Shares. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall at the discretion of the Board of Directors either (i) pay cash equal to such fraction multiplied by the fair market value for the applicable Preferred Share as determined and approved by the Board of Directors (which shall include the approval of the Tencent Director), or (ii) issue one whole Ordinary Share for each fractional share to which the holder would otherwise be entitled.
  - (6) Upon conversion, all accrued but unpaid share dividends on the applicable Preferred Shares shall be paid in shares and all accrued but unpaid cash dividends on the applicable Preferred Shares shall be paid either in cash or, as determined and approved by the Board of Directors (which shall include the approval of the Tencent Director), by the issuance of a number of further Ordinary Shares equal to the value of such cash amount.

E. **Adjustment of the Conversion Price.**

The Conversion Price shall be adjusted and readjusted from time to time as provided below:

- (1) **Adjustment for Share Splits and Combinations.** If the Company shall at any time, or from time to time, effect a subdivision of the outstanding Ordinary Shares, the Conversion Price in effect immediately prior to such subdivision with respect to each Preferred Share shall be proportionately decreased. Conversely, if the Company shall at any time, or from time to time, combine the outstanding Ordinary Shares into a smaller number of shares, the Conversion Price in effect immediately prior to such combination with respect to each Preferred Share shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

- 
- (2) **Adjustment for Ordinary Share Dividends and Distributions.** If the Company makes (or fixes a record date for the determination of holders of Ordinary Shares entitled to receive) a dividend or other distribution to the holders of Ordinary Shares payable in additional Ordinary Shares, the Conversion Price then in effect with respect to each Preferred Share shall be decreased as of the time of such issuance (or in the event such record date is fixed, as of the close of business on such record date) by multiplying such conversion price by a fraction (i) the numerator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of Ordinary Shares issuable in payment of such dividend or distribution.
- (3) **Adjustments for Reorganizations, Mergers, Consolidations, Reclassifications, Exchanges, Substitutions.** If at any time, or from time to time, any capital reorganization or reclassification of the Ordinary Shares (other than as a result of a share dividend, subdivision, split or combination otherwise treated above) occurs or the Company is consolidated, merged or amalgamated with or into another Person (other than a consolidation, merger or amalgamation treated as a Deemed Liquidation Event in Article 8.2B)), then in any such event, provision shall be made so that, upon conversion of any Preferred Share thereafter, the holder thereof shall receive the kind and amount of shares and other securities and property which the holder of such shares would have received in connection with such event had the relevant Preferred Shares been converted into Ordinary Shares immediately prior to such event.
- (4) **Adjustments to Conversion Price for Dilutive Issuance.**
- (a) **Special Definition.** For purpose of this Article 8.3E(4), the following definitions shall apply:
- (i) **“Options”** mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Ordinary Shares or Convertible Securities.
- (ii) **“Convertible Securities”** shall mean any indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Ordinary Shares.

---

(iii) **“New Securities”** shall mean all Ordinary Shares issued (or, pursuant to Article 8.3E(4)(c), deemed to be issued) by the Company after the date on which these Articles are adopted, other than the following issuances (collectively, the **“Excepted Issuances”**):

- a) up to in the aggregate 135,032,132 Ordinary Shares (or Options exercisable for such Ordinary Shares) (as appropriately adjusted for share splits, share dividends, combinations, recapitalizations and similar events) issued (or issuable pursuant to such Options) to the Group Companies’ employees, officers, directors, consultants or any other Persons qualified pursuant to the ESOP;
- b) Ordinary Shares issued or issuable pursuant to a share split or sub-division, share dividend, combination, recapitalization or other similar transaction of the Company, as described in Article 8.3E(1) through Article 8.3E(3) and as approved by the Board (so long as such approval includes the consent of the Tencent Director);
- c) Ordinary Shares issued upon the conversion of Preferred Shares;
- d) any Equity Securities of the Company issued pursuant to a Qualified IPO;
- e) any Equity Securities of the Company issued as dividend or distribution solely on the Preferred Shares in accordance with the Memorandum and Articles, or in connection with a subdivision, combination, reclassification or similar event of the Preferred Shares; and
- f) with respect to the relevant Conversion Price, any Equity Securities for which the Majority Preferred Holders have agreed in writing to waive the applicable adjustment to the Conversion Price provided by Article 8.3E(4)(d) below.

---

(b) **No Adjustment of Conversion Price.** No adjustment in the Conversion Price with respect to any Preferred Share shall be made in respect of the issuance of New Securities unless the consideration per Ordinary Share (determined pursuant to Article 8.3E(4)(e) hereof) for the New Securities issued or deemed to be issued by the Company is less than such Conversion Price in effect immediately prior to such issuance, as provided for by Article 8.3E(4)(d). No adjustment or readjustment in the Conversion Price with respect to any Preferred Share otherwise required by this Article 8.3 shall affect any Ordinary Shares issued upon conversion of any applicable Preferred Share prior to such adjustment or readjustment, as the case may be.

(c) **Deemed Issuance of New Securities.** In the event the Company at any time or from time to time after the Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any series or class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of Ordinary Shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number for anti-dilution adjustments) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities or the exercise of such Options, shall be deemed to be New Securities issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which New Securities are deemed to be issued:

(i) no further adjustment in the Conversion Price with respect to any Preferred Share shall be made upon the subsequent issue of Convertible Securities or Ordinary Shares upon the exercise of such Options or conversion or exchange of such Convertible Securities or upon the subsequent issue of Options for Convertible Securities or Ordinary Shares;

(ii) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any change in the consideration payable to the Company, or change in the number of Ordinary Shares issuable, upon the exercise, conversion or exchange thereof, the then effective Conversion Price with respect to any Preferred Share computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such change becoming effective, be recomputed to reflect such change insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

---

(iii) no readjustment pursuant to Article 8.3E(4)(c)(ii) shall have the effect of increasing the then effective Conversion Price with respect to any Preferred Share to an amount which exceeds the Conversion Price with respect to such Preferred Share that would have been in effect had no adjustments in relation to the issuance of the Options or Convertible Securities as referenced in Article 8.3E(4)(c)(ii) been made;

(iv) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities that have not been exercised, the then effective Conversion Price with respect to any Preferred Share computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto) and any subsequent adjustments based thereon shall, upon such expiration, be recomputed as if:

- (x) in the case of Convertible Securities or Options for Ordinary Shares, the only New Securities issued were the Ordinary Shares, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Company for the issue of such exercised Options plus the consideration actually received by the Company upon such exercise or for the issue of all such Convertible Securities that were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and
- (y) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Company for the New Securities deemed to have been then issued was the consideration actually received by the Company for the issue of such exercised Options, plus the consideration deemed to have been received by the Company (determined pursuant to Article 8.3E(4)(e) ) upon the issue of the Convertible Securities with respect to which such Options were actually exercised; and

- 
- (z) if such record date shall have been fixed and such Options or Convertible Securities are not issued on the date fixed therefor, the adjustment previously made in the Conversion Price with respect to any Preferred Share which became effective on such record date shall be canceled as of the close of business on such record date, and thereafter the Conversion Price with respect to such Preferred Share shall be adjusted pursuant to this Article 8.3E(4)(c) as of the actual date of their issuance.

(d) **Adjustment of the Conversion Price upon Issuance of New Securities.** In the event of an issuance of New Securities, at any time after the Issue Date, for a consideration per Ordinary Share received by the Company (net of any selling concessions, discounts or commissions) less than the applicable Conversion Price with respect to any Preferred Share in effect immediately prior to such issue, then and in such event, the applicable Conversion Price with respect to such Preferred Share shall be reduced, concurrently with such issue, to a price determined as set forth below:

$$NCP = OCP * (OS + (NP/OCP))/(OS+NS)$$

Where:

NCP = the new Conversion Price with respect to such Preferred Share;

OCP = the Conversion Price with respect to such Preferred Shares in effect immediately before the issuance of the New Securities;

OS = the total outstanding Ordinary Shares immediately before the issuance of the New Securities plus the total Ordinary Shares issuable upon conversion of all the outstanding Preferred Shares and exercise of outstanding Options;

NP = the total consideration received for the issuance or sale of the New Securities; and

---

NS = the number of New Securities issued or sold.

(e) **Determination of Consideration.** For purposes of this Article 8.3E(4), the consideration received by the Company for the issuance of any New Securities shall be computed as follows:

(i) **Cash and Property.** Such consideration shall:

- a) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company excluding amounts paid or payable for accrued interest or accrued dividends and excluding any discounts, commissions or placement fees payable by the Company to any underwriter or placement agent in connection with the issuance of any New Securities;
- b) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined and approved in good faith by the Board of Directors (so long as such approval includes the consent of the Tencent Director); provided, however, that no value shall be attributed to any services performed by any employee, officer or director of any Group Company;
- c) in the event New Securities are issued together with other Shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received which relates to such New Securities, computed as provided in clauses (1) and (2) above, as reasonably determined in good faith by the Board of Directors (which shall include the approval of the Tencent Director).

(f) **Options and Convertible Securities.** The consideration per Ordinary Share received by the Company for New Securities deemed to have been issued pursuant to Article 8.3E(4)(c) hereof relating to Options and Convertible Securities, shall be determined by dividing (x) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities (determined in the manner described in paragraph (i) above), plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by (y) the maximum number of Ordinary Shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

- 
- (5) **Other Dilutive Events.** In case any event shall occur as to which the other provisions of this Article 8.3E) are not strictly applicable, but the failure to make any adjustment to the Conversion Price with respect to any Preferred Share, would not fairly protect the conversion rights of the holders of such Preferred Shares in accordance with the essential intent and principles hereof, then the Company, in good faith, shall determine the appropriate adjustment to be made, on a basis consistent with the essential intent and principles established in this Article 8.3E), necessary to preserve, without dilution, the conversion rights of the holders of such Preferred Shares.
- (6) **No Impairment.** Except as duly approved pursuant to Article 8.4, the Company will not, by amendment of these Articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, amalgamation, scheme of arrangement, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Article 8.3 and in the taking of all such action as may be necessary or appropriate to protect the conversion rights of the holders of Preferred Shares against impairment.
- (7) **Certificate of Adjustment.** In the case of any adjustment or readjustment of the Conversion Price with respect to any Preferred Share, the Company, at its sole expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall deliver such certificate by notice to each registered holder of such Preferred Shares at the holder's address as shown in the Company's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Company for any New Securities issued or sold or deemed to have been issued or sold, (ii) the number of New Securities issued or sold or deemed to be issued or sold, (iii) the Conversion Price with respect to such Preferred Share, in effect before and after such adjustment or readjustment, and (iv) the type and number of Equity Securities of the Company, and the type and amount, if any, of other property which would be received upon conversion of such Preferred Shares after such adjustment or readjustment.

- 
- (8) **Notice of Record Date.** In the event the Company shall propose to take any action of the type or types requiring an adjustment set forth in this Article 8.3E), the Company shall give notice to the holders of the relevant Preferred Shares, which notice shall specify the record date, if any, with respect to any such action and the date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price with respect to the relevant Preferred Share, and the number, kind or class of shares or other securities or property which shall be deliverable upon the occurrence of such action or deliverable upon the conversion of the relevant Preferred Shares. In the case of any action which would require the fixing of a record date, such notice shall be given at least twenty (20) days prior to the date so fixed, and in the case of all other actions, such notice shall be given at least thirty (30) days prior to the taking of such proposed action.
- (9) **Reservation of Shares Issuable Upon Conversion.** The Company shall at all times reserve and keep available out of its authorized but unissued Ordinary Shares, solely for the purpose of effecting the conversion of the Preferred Shares, such number of its Ordinary Shares as shall from time to time be sufficient to effect the conversion of all outstanding Preferred Shares. If at any time the number of authorized but unissued Ordinary Shares shall not be sufficient to effect the conversion of all then outstanding Preferred Shares, in addition to such other remedies as shall be available to the holders of Preferred Shares, the Company and its Members will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued Ordinary Shares to such number of shares as shall be sufficient for such purposes.

- 
- (10) **Notices.** Any notice required or permitted pursuant to this Article 8.3 shall be given in writing and shall be given in accordance with Articles 109 through 113.
- (11) **Payment of Taxes.** The Company will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of Ordinary Shares upon conversion of the Preferred Shares, excluding any tax or other charge imposed in connection with any transfer involved in the issue and delivery of Ordinary Shares in a name other than that in which such Preferred Shares so converted were registered.

8.4 **Voting Rights.**

- A. **General Rights.** Subject to the provisions of the Memorandum and these Articles, at all general meetings of the Company:
- (a) the holder of each Ordinary Share issued and outstanding shall have one vote in respect of each Ordinary Share held, and
  - (b) the holder of a Preferred Share shall be entitled to such number of votes as equals the whole number of Ordinary Shares into which such holder's collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Company's Members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Company's Members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as-converted and fully diluted basis (after aggregating all shares into which the Preferred Shares held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). To the extent that the Statute or the Articles allow any class or series of Preferred Shares to vote separately as a class or series with respect to any matters, such Preferred Shares shall have the right to vote separately as a class or series with respect to such matters.
- B. **Protective Provisions.**
- 1. **Approvals by Majority Preferred Holders.** The Company shall not take, permit to occur, approve, authorize, or agree or commit to do any of the following, and no Member holding Ordinary Shares shall permit the Company to, take, permit to occur, approve, authorize, or agree or commit to do any of the following, and the Company shall not permit any other Group Company to take, permit to occur, approve, authorize, or agree or commit to do any of the following, whether in a single transaction or a series of related transactions, whether directly or indirectly, and whether or not by amendment, merger, consolidation, scheme of arrangement, amalgamation, or otherwise, unless approved by the Majority Preferred Holders in advance in writing or by duly adopted resolutions:
  - 2. any amendment or change of the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, any Preferred Shares;

- 
3. any action that authorizes, creates, issues, or changes the authorized number of (A) any class or series of Equity Securities having rights, preferences, privileges, powers, limitations or restrictions superior to or on a parity with any Preferred Shares in issue, whether as to liquidation, conversion, dividend, voting, redemption, or otherwise, or any Equity Securities convertible into, exchangeable for, or exercisable into any Equity Securities having rights, preferences, privileges, powers, limitations or restrictions superior to or on a parity with any Preferred Shares in issue, whether as to liquidation, conversion, dividend, voting, redemption or otherwise, or (B) New Securities;
  4. any action that reclassifies, reorganizes, or recapitalizes any outstanding Equity Securities, except pursuant to Article 8.3;
  5. any purchase, repurchase, redemption or retirement of any Equity Securities of any Group Company, other than repurchases of such Equity Securities pursuant to share restriction agreements approved by the Board upon termination of a director, employee or consultant, at the original cost paid by such director, employee, or consultant;
  6. any amendment or modification to or waiver under any of the Charter Documents;
  7. any declaration, set aside or payment of a dividend or other distribution, or the adoption of, or any change to, the dividend policy of any Group Company;
  8. adoption, amendment or termination of the ESOP or any other equity incentive, purchase or participation plan for the benefit of employees, officers, directors, contractors, advisors or consultants;
  9. engagement in any transaction or execution of any agreement (including but not limited to the termination, extension, continuation after expiry, renewal, amendment, variation or waiver of any term under agreement with respect to any transaction or series of transactions) with any Related Party or any relative of Related Party;
  10. any merger, amalgamation or consolidation of any Group Company with any Person, or the purchase or other acquisition by any Group Company (whether individually or in combination with the Company or any other Group Company) of all or substantially all of the assets, equity or business of another Person, or any Deemed Liquidation Event;

- 
11. any sale, transfer, or other disposal of, or the incurrence of any Lien on, any substantial part of any Group Company's assets;
  12. with respect to any Group Company, other than any non-exclusive license granted in the ordinary course of business, any sale, transfer, license, or other disposal of, or the incurrence of any Lien on, any copyright, trademark, patent or other Intellectual Property;
  13. with respect to any Group Company, the commencement of or consent to any proceeding seeking (i) to adjudicate as bankrupt or insolvent, (ii) liquidation, winding up, dissolution, reorganization, or other arrangement under law relating to bankruptcy, insolvency or reorganization or relief of debtors, or (iii) the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property;
  14. any change of the size or composition of the board of directors of any Group Company;
  15. any change in the equity ownership of any Group Company in any other Group Company, or any amendment or modification to or waiver under any of the Control Documents (as defined in the Shareholders Agreement);
  16. any material change to the business scope or nature of business, or cessation of any business line of any Group Company; or
  17. any action by a Group Company to authorize, approve or enter into any agreement or obligation with respect to any of the actions listed above.

Notwithstanding anything to the contrary contained herein, where any act listed in clauses (1) through (15) above requires the approval of the Members of the Company by way of a special resolution in accordance with the Statute, and if the Members vote in favour of such act but the approval of the Majority Preferred Holders has not been obtained, then the Majority Preferred Holders shall carry thirty-four percent (34%) of the votes on such special resolution.

18. Board Approvals. To the maximum extent permissible under applicable laws, the Company shall not take, permit to occur, approve, authorize, or agree or commit to do any of the following, and the Members holding Ordinary Shares shall not permit the Company to, take, permit to occur, approve, authorize, or agree or commit to do any of the following, whether in a single transaction or a series of related transactions, and the Company shall not permit any other Group Company to take, permit to occur, approve, authorize, or agree or commit to do any of the following, whether directly or indirectly, and whether or not by amendment, merger, consolidation, scheme of arrangement, amalgamation, or otherwise, unless approved by the Board (which approval shall include the consent of the Tencent Director):
19. incurrence of indebtedness or guarantees of indebtedness in excess of US\$2,000,000 in the aggregate for the Group during any fiscal year;

- 
20. extension of any loan or financial assistance to any third party except (i) to a wholly-owned Subsidiary of the Group or (ii) trade credit provided to bona fide customers in the ordinary course of business;
  21. purchase or lease of any business and/or assets valued in excess of US\$1,000,000 individually or US\$2,000,000 in the aggregate for the Group during any fiscal year;
  22. investment in, establishment, or divestiture, pledge, mortgage or sale of an interest in any partnership, joint venture or other company in excess of US\$2,500,000 individually or US\$5,000,000 in the aggregate for the Group during any fiscal year;
  23. approval of, or any deviation from or amendment of, the annual budget or the business and financial plan of any Group Company;
  24. appointment or removal of the Chairman, Chief Executive Officer, President, or Chief Financial Officer of any Group Company;
  25. approval of any remuneration or compensation package for any director, employee or consultant of any Group Company which in the aggregate (including in kind compensation and allowance) exceeds US\$500,000 or its equivalent in another currency per annum;
  26. appointment or removal of Auditors, or the change of the term of the fiscal year;
  27. adoption of or change to, a significant tax or accounting practice or policy or any internal financial controls and authorization policies, or the making of any significant tax or accounting election;
  28. any other action or transaction out of the ordinary course of business; or

- 
29. any action by a Group Company to authorize, approve or enter into any agreement or obligation with respect to any of the actions listed above.

8.5 **Redemption Rights**

- A. Redemption.** In the event of (i) any material breach of the Transaction Documents by any Group Company or Principal which involves fraud, intentional misconduct, or gross negligence, and which results in a Material Adverse Effect, (ii) the failure of a Qualified IPO to occur by the sixth (6th) anniversary of the Issue Date of the Series C Preferred Shares, or (iii) the issuance by the Majority Series A and Series A-1 Preferred Holders, the Majority Series B Preferred Holders and/or the Majority Series C and Series C-1 Preferred Holders (the “**Initiating Holders**”), of an Initial Redemption Notice, the Initiating Holders may give a written notice by hand or letter mail or courier service to the Company at its principal executive offices at any time or from time to time (the “**Initial Redemption Notice**”) requesting redemption of all, but not less than all of their Preferred Shares, in which case the Company shall (1) promptly thereafter provide all of the other holders of Preferred Shares notice (pursuant to Articles 109 through 113) of the Initial Redemption Notice and of their right to participate in such redemption, which right is exercisable by each such holder in their own discretion by delivering a written notice (each, a “**Redemption Notice**”) by hand or letter mail or courier service to the Company at its principal executive offices within fifteen (15) Business Days of the giving of such notice by the Company, requesting and specifying redemption of all, but not less than all of their Preferred Shares, and (2) subject to applicable laws, pay to each holder of a Preferred Share (each, a “**Redeeming Preferred Shareholder**”) for which an Initial Redemption Notice or a Redemption Notice has been timely submitted (each, a “**Redeeming Preferred Share**”) in accordance with the method and the priority as described in the Article 8.4B) below.
- B. Series C and C-1 Preferred Shares Redemption.** Series C Preferred Shares and Series C-1 Preferred Shares shall be redeemed by the Company at an amount (the “**Series C Redemption Price**”) out of funds legally available therefor, including but not limited to share premiums and profits, equal to the greater of (x) the Series C Issue Price or the Series C-1 Issue Price, as applicable, plus interest thereon at 6% per annum, compounded annually from the Issue Date of the Series C Preferred Shares or Series C-1 Preferred Shares, as applicable, until the Series C Redemption Price Payment Date (as defined below), plus any accrued but unpaid dividends on such Share, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, or mergers, and (y) the Series C Preference Amount, with the Series C Redemption Price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty (60) days of the date of the Initial Redemption Notice (the “**Series C Redemption Price Payment Date**”).

- 
- C. **Series B Preferred Shares Redemption.** Subject to the prior right of holders of Series C Preferred Shares and Series C-1 Preferred Shares, Series B Preferred Shares shall be redeemed by the Company at an amount (the “**Series B Redemption Price**”) out of funds legally available therefor, including but not limited to share premiums and profits, equal to the greater of (x) the Series B Issue Price plus interest thereon at 6% per annum, compounded annually from the Issue Date of the Series B Preferred Shares until the Series B Redemption Price Payment Date (as defined below), plus any accrued but unpaid dividends on such Share, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, or mergers, and (y) the Series B Preference Amount, with the Series B Redemption Price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty (60) days of the date of the Initial Redemption Notice (the “**Series B Redemption Price Payment Date**”).
- D. **Series A Preferred Shares and Series A-1 Preferred Shares Redemption.** Subject to the prior right of holders of Series C Preferred Shares, Series C-1 Preferred Shares and Series B Preferred Shares, Series A Preferred Shares and Series A-1 Preferred Shares shall be redeemed by the Company at an amount (the “**Series A Redemption Price**”, together with the Series B Redemption Price, the “**Redemption Price**”) out of funds legally available therefor, including but not limited to share premiums and profits, equal to the greater of (x) the Series A Issue Price or the Series A-1 Issue Price, as applicable, plus interest thereon at 6% per annum, compounded annually from the Issue Date of the Series A Preferred Shares and the Issue Date of the Series A-1 Preferred Shares, as applicable, until the Series A Redemption Price Payment Date (as defined below), plus any accrued but unpaid dividends on such Share, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, or mergers, and (y) the Series A Preference Amount, with the Series A Redemption Price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty (60) days of the date of the Initial Redemption Notice (the “**Series A Redemption Price Payment Date**”, together with the Series B Redemption Price Payment Date and the Series C Redemption Price Payment Date, the “**Redemption Price Payment Date**”).
- E. **Insufficient Funds.** Subject to applicable laws, if the Company fails to pay on the Series C Redemption Price Payment Date the full Series C Redemption Price in respect of each Series C Preferred Share and/or Series C-1 Preferred Share to be redeemed because it has inadequate funds legally available therefor or for any other reason, the funds that are legally available shall nonetheless be paid and applied on the applicable Series C Redemption Price Payment Date in a pro-rata manner against each Series C Preferred Share and/or Series C-1 Preferred Share to be redeemed in accordance with the relative full amounts owed thereon, and the shortfall shall be paid and applied from time to time out of legally available funds immediately as and when such funds become legally available in a pro-rata manner against each Series C Preferred Share and/or Series C-1 Preferred Share to be redeemed in accordance with the relative remaining amounts owed thereon, such that, in any case, the full Series C Redemption Price shall not be deemed to have been paid in respect of such Redeeming Preferred Share and the redemption shall not be deemed to have been consummated in respect of such Redeeming Preferred Share on the Series C Redemption Price Payment Date, and such holder of the Redeeming Preferred Shares shall remain entitled to all of its rights, including (without limitation) its voting rights, in respect of such Redeeming Preferred Share, and such Redeeming Preferred Shares shall remain “outstanding” for the purposes of these Articles, until such time as the Series C Redemption Price in respect of Series C Preferred Shares and/or Series C-1 Preferred Shares to be redeemed has been paid in full (the “**Series C Redemption Date**”) whereupon all such rights shall automatically cease. Any portion of the Series C Redemption Price not paid by the Company in respect of each Series C Preferred Share and/or Series C-1 Preferred Shares to be redeemed on the Series C Redemption Price Payment Date shall continue to be owed to the holder thereof.

---

Subject to the prior right of holders of Series C Preferred Shares and Series C-1 Preferred Shares, if the Company fails to pay on the Series B Redemption Price Payment Date the full Series B Redemption Price in respect of the Series B Preferred Share to be redeemed because it has inadequate funds legally available therefor or for any other reason, the funds that are legally available shall nonetheless be paid and applied on the applicable Series B Redemption Price Payment Date in a pro-rata manner against each Series B Preferred Share to be redeemed in accordance with the relative full amounts owed thereon, and the shortfall shall be paid and applied from time to time out of legally available funds immediately as and when such funds become legally available in a pro-rata manner against each Series B Preferred Share to be redeemed in accordance with the relative remaining amounts owed thereon, such that, in any case, the full Series B Redemption Price shall not be deemed to have been paid in respect of such Redeeming Preferred Share and the redemption shall not be deemed to have been consummated in respect of such Redeeming Preferred Share on the Series B Redemption Price Payment Date, and such holder of the Redeeming Preferred Shares shall remain entitled to all of its rights, including (without limitation) its voting rights, in respect of such Redeeming Preferred Share, and such Redeeming Preferred Shares shall remain “outstanding” for the purposes of these Articles, until such time as the Series B Redemption Price in respect of Series B Preferred Shares to be redeemed has been paid in full (the “**Series B Redemption Date**”) whereupon all such rights shall automatically cease. Any portion of the Series B Redemption Price not paid by the Company in respect of each Series B Preferred Shares to be redeemed on the Series B Redemption Price Payment Date shall continue to be owed to the holder thereof.

---

Subject to the prior right of holders of Series C Preferred Shares, Series C-1 Preferred Shares and Series B Preferred Shares, if the Company fails to pay on the Series A Redemption Price Payment Date the full Series A Redemption Price in respect of each Series A Preferred Share and/or each Series A-1 Preferred Share to be redeemed on such date because it has inadequate funds legally available therefor or for any other reason, the funds that are legally available shall nonetheless be paid and applied on the Series A Redemption Price Payment Date in a pro-rata manner against each Series A Preferred Share and/or each Series A-1 Preferred Share to be redeemed in accordance with the relative full amounts owed thereon, and the shortfall shall be paid and applied from time to time out of legally available funds immediately as and when such funds become legally available in a pro-rata manner against such Redeeming Preferred Shares in accordance with the relative remaining amounts owed thereon, such that, in any case, the full Series A Redemption Price shall not be deemed to have been paid in respect of such Redeeming Preferred Share and the redemption shall not be deemed to have been consummated in respect of such Redeeming Preferred Shares on the Series A Redemption Price Payment Date, and such holders of the Redeeming Preferred Shares shall remain entitled to all of its rights, including (without limitation) its voting rights, in respect of such Redeeming Preferred Share, and such Redeeming Preferred Shares shall remain "outstanding" for the purposes of these Articles, until such time as the Series A Redemption Price in respect of each Series A Preferred Share and/or each Series A-1 Preferred Share to be redeemed has been paid in full (the "**Series A Redemption Date**") whereupon all such rights shall automatically cease. Any portion of the Series A Redemption Price not paid by the Company in respect of such Redeeming Preferred Share on the Series A Redemption Price Payment Date shall continue to be owed to the holder thereof.

- F. **Seniority.** Notwithstanding any provision to the contrary, the rights of the holders of Series C Preferred Shares and Series C-1 Preferred Shares shall be senior in all respects to the rights of the holders of Series B Preferred Shares, Series A Preferred Shares and Series A-1 Preferred Shares to receive any payments to be made for the redemption of Series B Preferred Shares, Series A Preferred Shares and/or Series A-1 Preferred Shares pursuant to Articles 8.5(C) or 8.5(D) hereof. Without limiting the generality of the foregoing, no portion of any such payments shall be paid to the holders of Series B Preferred Shares, Series A Preferred Shares and/or Series A-1 Preferred Shares on the Series B Redemption Date or Series A Redemption Date (as applicable) unless all payments for the redemption of Series C Preferred Shares and/or Series C-1 Preferred Shares due on the Series C Redemption Date have been paid in full to the holders of Series C Preferred Shares and/or Series C-1 Preferred Shares with respect to all Series C Preferred Shares and/or Series C-1 Preferred Shares to be redeemed pursuant to Article 8.5(B) hereof

---

Subject to the prior right of holders of Series C Preferred Shares and Series C-1 Preferred Shares, the rights of the holders of Series B Preferred Shares shall be senior in all respects to the rights of the holders of Series A Preferred Shares and Series A-1 Preferred Shares to receive any payments to be made for the redemption of Series A Preferred Shares and/or Series A-1 Preferred Shares pursuant to Article 8.5(D) hereof. Without limiting the generality of the foregoing, no portion of any such payments shall be paid to the holders of Series A Preferred Shares and/or Series A-1 Preferred Shares on the Series A Redemption Date unless all payments for the redemption of Series B Preferred Shares due on the Series B Redemption Date have been paid in full to the holders of Series B Preferred Shares with respect to all Series B Preferred Shares to be redeemed pursuant to Article 8.5(C) hereof.

- G. Waivers.** The Company may, with the written consent of the Majority Preferred Holders, and without the need to amend this Article, modify, waive, or deviate from any of the requirements of, or procedures set forth in, this Article, provided that if any such modification, waiver, or deviation has a material adverse effect on any Redeeming Preferred Shareholder as compared on a relative basis (based on the amounts they are entitled to receive on redemption) to other Redeeming Preferred Shareholder(s), the written consent of such Redeeming Preferred Shareholder whose interests are being materially adversely affected shall be required.
- H. No Impairment.** Once the Company has received an Initial Redemption Notice, it shall not (and shall not permit any Subsidiary or Members holding Ordinary Shares to) take any action which could have the effect of delaying, undermining or restricting the redemption, and the Company shall in good faith use all reasonable efforts as expeditiously as possible to increase the amount of legally available redemption funds including without limitation, to the maximum extent permissible under applicable laws, causing any other Group Company to distribute any and all available funds to the Company for purposes of paying the Redemption Price for all Redeeming Preferred Shares on the Redemption Price Payment Date, and until the date on which each Redeeming Preferred Share is redeemed, the Company shall not declare or pay any dividend nor otherwise make any distribution of or otherwise decrease its profits available for distribution.

---

**ORDINARY SHARES**

9. Certain rights, preferences, privileges and limitations of the Ordinary Shares of the Company are as follows:
- 9.1 **Dividend Provision.** Subject to the preferential rights of holders of all series and classes of Shares in the Company at the time issued and outstanding having preferential rights as to dividends, the holders of the Ordinary Shares shall, subject to the Statute and these Articles, be entitled to receive, when, as and if declared by the Directors, out of any assets of the Company legally available therefor, such dividends as may be declared from time to time by the Directors.
- 9.2 **Liquidation.** Upon the liquidation, dissolution or winding up of the Company, including a Deemed Liquidation Event, the assets of the Company shall be distributed as provided in Article 8.2.
- 9.3 **Voting Rights.** The holder of each Ordinary Share shall have the right to one vote with respect to such Ordinary Share, and shall be entitled to notice of any Members' meeting in accordance with these Articles, and shall be entitled to vote upon such matters and in such manner as may be provided for in these Articles.

**REGISTER OF MEMBERS**

10. The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute. The Register of Members shall be the only evidence as to who are the Members entitled to examine the Register of Members, the list required to be sent to Members under Article 38, or the other books and records of the Company, or to vote in person or by proxy at any meeting of Members.

**FIXING RECORD DATE**

11. The Directors may fix in advance a date as the record date for any determination of Members entitled to notice of or to vote at a meeting of the Members, or any adjournment thereof, and for the purpose of determining the Members entitled to receive payment of any dividend the Directors may, at or within ninety (90) days prior to the date of declaration of such dividend fix a subsequent date as the record date for such determination.
12. If no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a dividend, the date on which notice of the meeting is sent or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

---

***CERTIFICATES FOR SHARES***

13. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other Person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and, subject to these Articles, no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.
14. The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one Person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.
15. If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

***TRANSFER OF SHARES***

16. The Shares of the Company are subject to transfer restrictions as set forth in the Shareholders Agreement and the Right of First Refusal and Co-Sale Agreement, by and among the Company and certain of its Members, and other transfer restrictions by which a Member has agreed to be bound. The Company will only register transfers of Shares that are made in accordance with such agreements and will not register transfers of Shares that are made in violation of such agreements. The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and, if the Directors so require, signed by the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

***REDEMPTION AND REPURCHASE OF SHARES***

17. Subject to applicable laws, the Company is permitted to redeem, purchase or otherwise acquire any of the Company's Shares, so long as such redemption, purchase or acquisition (i) is pursuant to any redemption or repurchase provisions set forth in Article 8.5 and Articles 120 through 123 of these Memorandum and Articles, (ii) is pursuant to the ESOP, (iii) is pursuant to the Right of First Refusal and Co-Sale Agreement; or (iv) is as otherwise agreed by the holder of such Share and the Company, subject in the case of clause (ii), (iii), or (iv) to compliance with any applicable restrictions set forth in the Shareholders Agreement, the Right of First Refusal and Co-Sale Agreement, the Memorandum and these Articles (as the case may be). In the case of a repurchase, the foregoing shall constitute the manner of such repurchase and accordingly any such repurchase shall not require separate approval of the Members.

- 
18. Subject to the provisions of the Statute and these Articles (including Article 8.4), the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. Subject to the provisions of the Statute and these Articles (including Article 8.4), the Directors may authorize the redemption or purchase by the Company of its own Shares in such manner and on such terms as they think fit and may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

#### ***VARIATION OF RIGHTS OF SHARES***

19. Subject to Article 8, if at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may only be varied with the consent in writing of Members holding: (a) with respect to the Series A Preferred Shares, the holders of more than 50% of the voting power of the Series A Preferred Shares; (b) with respect to the Series A-1 Preferred Shares, the holders of more than 50% of the voting power of the Series A-1 Preferred Shares; (c) with respect to the Series B Preferred Shares, the Majority Series B Preferred Holders; (d) with respect to the Series C Preferred Shares, the Majority Series C Preferred Holders, and (e) with respect to the Series C-1 Preferred Shares, the holders of more than 50% of the voting power of the Series C-1 Preferred Shares, (in person or by proxy) of Shares on a poll at a general meeting of such class affected by the proposed variation of rights or with the sanction of a resolution of such Members holding more than 50% (with respect to the Series A Preferred Shares and Series A-1 Preferred Shares), 50% (with respect to the Series B Preferred Shares), or 50% (with respect to Series C Preferred Shares and Series C-1 Preferred Shares) of the votes which could be cast by holders (in person or by proxy) of Shares of such class on a poll at a general meeting but not otherwise.
20. For the purpose of the preceding Article, all of the provisions of these Articles relating to general meetings shall apply, to the extent applicable, *mutatis mutandis*, to every meeting of holders of separate class of shares, except that the necessary quorum shall be one or more Persons holding or representing by proxy at least a majority of the issued Shares of such class and that any Member holding Shares of such class, present in person or by proxy, may demand a poll.
21. Subject to Article 8, the rights conferred upon the holders of Shares or any class of Shares shall not, unless otherwise expressly provided by the terms of issue of such Shares, be deemed to be varied by the creation, redesignation, or issue of Shares ranking senior thereto or *pari passu* therewith.

#### ***COMMISSION ON SALE OF SHARES***

22. The Company may, with the approval of the Board (which shall include the approval of the Tencent Director), so far as the Statute permits, pay a commission to any Person in consideration of his or her subscribing or agreeing to subscribe whether absolutely or conditionally for any Shares of the Company. Such commissions may be satisfied by the payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

---

***NON-RECOGNITION OF INTERESTS***

23. The Company shall not be bound by or compelled to recognise in any way (even when having notice thereof) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the registered holder.

***TRANSMISSION OF SHARES***

24. If a Member dies, the survivor or survivors where such Member was a joint holder, and his or her legal personal representatives where such Member was a sole holder, shall be the only Persons recognised by the Company as having any title to such Member's interest. The estate of a deceased Member is not thereby released from any liability in respect of any Share that had been jointly held by such Member.
25. Any Person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors, elect either to become the holder of the Share or to have some Person nominated by him or her as the transferee.
26. If the Person so becoming entitled shall elect to be registered as the holder, such Person shall deliver or send to the Company a notice in writing signed by such Person stating that he or she so elects.

***AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL***

27. Subject to Article 8 and the provisions of the Statute, the Company may by Ordinary Resolution:
- 27.1 increase the share capital by such sum to be divided into shares of such amount as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
- 27.2 consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
- 27.3 by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum;
- 27.4 cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any Person; and

- 
- 27.5 perform any action not required to be performed by Special Resolution.
28. Subject to the provisions of the Statute and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, and subject further to Article 8, the Company may by Special Resolution:
- 28.1 change its name;
- 28.2 alter or add to these Articles;
- 28.3 alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and
- 28.4 reduce its share capital and any capital redemption reserve fund.

***REGISTERED OFFICE***

29. Subject to the provisions of the Statute, the Company may by resolution of the Directors (which shall include the consent of the Tencent Director) change the location of its Registered Office.

***GENERAL MEETINGS***

30. All general meetings other than annual general meetings shall be called extraordinary general meetings.
31. The Company shall, if required by the Statute, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint. At these meetings, the report of the Directors (if any) shall be presented.
32. The Directors may call general meetings, and they shall on a Members requisition forthwith proceed to convene an extraordinary general meeting of the Company.
33. A Members requisition is a requisition of Members of the Company holding, on the date of deposit of the requisition, not less than either (i) the Majority Ordinary Holders, or (ii) the Majority Preferred Holders.
34. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
35. If the Directors do not within twenty-one (21) days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one (21) days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three (3) months after the expiration of the said twenty-one (21) days.

- 
36. A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

***NOTICE OF GENERAL MEETINGS***

37. At least ten (10) Business Days' notice shall be given of any general meeting unless such notice is waived either before, at, or after such meeting both (i) by the Members (or their proxies) holding a majority of the aggregate voting power of all of the Ordinary Shares entitled to attend and vote thereat, and (ii) by the Majority Preferred Holders (or their proxies). Every notice shall be exclusive of the day on which it is given or deemed to be given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed by both (i) the Majority Ordinary Holders (or their proxies), and (ii) the Majority Preferred Holders (or their proxies).
38. The officer of the Company who holds the Register of Members of the Company shall prepare and make, at least two (2) Business Days before every general meeting, a complete list of the Members entitled to vote at the general meeting, arranged in alphabetical order, and showing the address of each Member and the number of shares registered in the name of each Member. Such list shall be open to examination by any Member for any purpose germane to the meeting, during ordinary business hours, for a period of at least two (2) Business Days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Member of the Company who is present.

***PROCEEDINGS AT GENERAL MEETINGS***

39. The holders of a majority of the aggregate voting power of all of the Ordinary Shares entitled to notice of and to attend and vote at such general meeting (including the Preferred Shares on an as-converted and fully diluted basis) and the Majority Preferred Holders, together, present in person or by proxy or if a company or other non-natural Person by its duly authorised representative shall be a quorum. Subject to Article 42, no business shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business.
40. A Person may participate at a general meeting by conference telephone or other communications equipment by means of which all the Persons participating in the meeting can communicate with each other. Participation by a Person in a general meeting in this manner is treated as presence in person at that meeting.

- 
41. A resolution in writing (in one or more counterparts) shall be as valid and effective as if the resolution had been passed at a duly convened and held general meeting of the Company if:
    - 41.1 in the case of a Special Resolution, it is signed by all Members for the time being entitled to receive notice of and attend and vote at general meetings; or
    - 41.2 in the case of any resolution passed other than as a Special Resolution, it is signed by Members for the time being holding Shares carrying in aggregate not less than the minimum number of votes that would be necessary to authorize or take such action at a general meeting at which all Shares entitled to vote thereon were present and voted (calculated in accordance with Article 8.4A)) (or, being companies, signed by their duly authorised representative).
  42. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum and the votes present may continue to transact business until adjournment. If, however, such quorum shall not be present or represented at any general meeting, the Members (or their proxies) holding a majority of the aggregate voting power of all of the Shares of the Company represented at the meeting may adjourn the meeting from time to time, until a quorum shall be present or represented; provided that, if notice of such meeting has been duly delivered to all Members ten (10) Business Days prior to the scheduled meeting in accordance with the notice procedures hereunder, and the quorum is not present within one hour from the time appointed for the meeting solely because of the absence of any Preferred Holders, the meeting shall be adjourned to the seventh (7<sup>th</sup>) following Business Day at the same time and place (or to such other time or such other place as the directors may determine) with notice delivered to all Members five (5) Business Days prior to the adjourned meeting in accordance with the notice procedures under Articles 109 through 113 and, if at the adjourned meeting, the quorum is not present within one half hour from the time appointed for the meeting solely because of the absence of any holders of Preferred Shares, the presence of such holders shall not be required at such second adjourned meeting for purposes of establishing a quorum. At such adjourned meeting, any business may be transacted that might have been transacted at the meeting as originally notified.
  43. The chairman, if any, of the Board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if he or she shall not be present within ten (10) minutes after the time appointed for the holding of the meeting, or is unwilling or unable to act, the Directors present shall elect one out of all Directors, or shall designate a Member, to be chairman of the meeting.
  44. With the consent of a general meeting at which a quorum is present, the chairman may (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned, notice of the adjourned meeting shall be given as in the case of an original meeting.

- 
45. A resolution put to the vote of the meeting shall be decided by poll and not on a show of hands.
  46. On a poll a Member shall have one vote for each Ordinary Share he holds on an as-converted and fully diluted basis. In the case of an equality of votes, the chairman of the meeting shall not be entitled to a second or casting vote.
  47. Except on a poll on a question of adjournment, a poll shall be taken as the chairman directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.
  48. A poll on a question of adjournment shall be taken forthwith.
  49. A poll on any other question shall be taken at such time as the chairman of the general meeting directs, and any business other than that upon which a poll has been demanded or is contingent thereon may proceed pending the taking of the poll.

#### ***VOTES OF MEMBERS***

50. Except as otherwise required by law or these Articles, the Ordinary Shares and the Preferred Shares shall vote together on an as-converted and fully diluted basis on all matters submitted to a vote of Members.
51. In the case of joint holders of record, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.
52. A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote by his or her committee, receiver, or other Person on such Member's behalf appointed by that court, and any such committee, receiver, or other Person may vote by proxy.
53. No Person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class or series of Shares unless (i) he or she is registered as a Member on the record date for such meeting and (ii) all calls or other monies then payable by such Member in respect of Shares have been paid.
54. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.
55. Votes may be cast either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting.
56. A Member holding more than one Share need not cast the votes in respect of his or her Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him or her, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he or she is appointed either for or against a resolution and/or abstain from voting.

---

***PROXIES***

57. The instrument appointing a proxy shall be in writing, be executed under the hand of the appointor or of his or her attorney duly authorised in writing, or, if the appointor is a corporation, under the hand of an officer or attorney duly authorised for that purpose. A proxy need not be a Member of the Company.
58. The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, no later than the time for holding the meeting or adjourned meeting.
59. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.
60. Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting or adjourned meeting at which it is sought to use the proxy.

***CORPORATE MEMBERS***

61. Any corporation or other non-natural Person that is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such Person as it thinks fit to act as its representative at any meeting of the Company or any class of Members, and the Person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he or she represents as the corporation could exercise if it were an individual Member.

***SHARES THAT MAY NOT BE VOTED***

62. Shares in the Company that are beneficially owned by the Company or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

---

**APPOINTMENT OF DIRECTORS**

63. The holders of the Ordinary Shares and Preferred Shares are entitled to appoint the directors and management of the Company according to the following provisions:
- 63.1 The authorized number of directors on the Board shall be three (3) directors, with the composition of the Board determined as follows: (a) the holders of a majority of the voting power of the then outstanding Ordinary Shares (excluding the Ordinary Shares issuable upon conversion of any Preferred Shares and voting as a separate class) shall be entitled to designate, appoint, remove, replace and reappoint at any time or from time to time two (2) directors to the Board (each an “**Ordinary Director**”); and (b) Tencent shall be exclusively entitled to appoint, remove, replace and reappoint at any time or from time to time one (1) director to the Board (so long as Tencent continues to hold at least (i) 10% of the then issued and outstanding Ordinary Shares (on an as-converted basis)) (the “**Tencent Director**”).

**POWERS OF DIRECTORS**

64. Subject to the provisions of the Statute, the Memorandum and these Articles and to any directions given by Special Resolution, the business of the Company shall be managed by or under the direction of the Directors who may exercise all the powers of the Company; provided, however, that the Company shall not carry out any action inconsistent with Articles 8 and 9. No alteration of the Memorandum or these Articles and no such direction shall invalidate any prior act of the Directors that would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.
65. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine.
66. Subject to Article 8, the Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his or her spouse or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
67. Subject to Article 8, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture shares, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
68. Without prejudice to Article 8.4B and any other Article where board approval is required as a matter of law or under these Articles, the Tencent Director is only a representative of an Investor and no administrative or management powers or responsibilities may be granted or placed upon the Tencent Director.

---

**VACATION OF OFFICE AND REMOVAL OF DIRECTOR**

69. The office of a Director shall be vacated if:
- 69.1 such Director gives notice in writing to the Company that he or she resigns the office of Director; or
  - 69.2 such Director dies, becomes bankrupt or makes any arrangement or composition with such Director's creditors generally; or
  - 69.3 such Director is found to be or becomes of unsound mind.
70. Any Director who shall have been elected by a specified group of Members may be removed during the aforesaid term of office, either for or without cause, by, and only by, the affirmative vote of the group of Members then entitled to elect such Director in accordance with Article 63, given at a special meeting of such Members duly called or by an action by written consent for that purpose. Any vacancy in the Board of Directors caused as a result of such removal or one or more of the events set out in Article 69 of any Director who shall have been elected by a specified group of Members, may be filled by, and only by, the affirmative vote of the group of Members then entitled to elect such Director in accordance with Article 63, given at a special meeting of such Members duly called or by an action by written consent for that purpose, unless otherwise agreed upon among such Members.

**PROCEEDINGS OF DIRECTORS**

71. A Director may by a written instrument appoint an alternate who need not be a Director, and an alternate is entitled to attend meetings in the absence of the Director who appointed him and to vote or consent in place of the Director. At all meetings of the Board of Directors a majority of the number of the Directors in office elected in accordance with Article 63 that includes the Tencent Director shall be necessary and sufficient to constitute a quorum for the transaction of business, and the vote of a majority of the Directors present (in person or in alternate) at any meeting at which there is a quorum, shall be the act of the Board of Directors, except as may be otherwise specifically provided by the Statute, the Memorandum or these Articles. Subject to the compliance with Article 8.4B) hereof, if notice of the board meeting has been duly delivered to all directors of the Board prior to the scheduled meeting in accordance with the notice procedures hereunder, and the quorum is not present within one half hour from the time appointed for the meeting, the meeting shall be adjourned to the seventh (7) following Business Day at the same time and place (or to such other time or such other place as the directors may determine) with notice delivered to all directors in accordance with the notice procedures hereunder and, if at the second adjourned meeting, the quorum is not present within one half hour from the time appointed for the meeting, then the directors present shall be a quorum, as long as not less than two (2) directors are present, whether or not the Tencent Director is included. All minutes and other records of proceedings of the Board shall clearly distinguish between the differing capacities of attendees or participants and, in the case of individual participants, between attendance at the meeting and voting on any resolutions or other proceedings.

- 
72. Subject to the provisions of these Articles, the Directors may regulate their proceedings as they think fit, provided however, unless otherwise approved by the Board (which shall include the approval of the Tencent Director), that (i) the board meetings shall be held at least once every three (3) months; and (ii) a written notice of each meeting, agenda of the business to be transacted at the meeting and, to the extent reasonably practicable, all documents and materials to be circulated at or presented to the meeting shall be sent to all Directors entitled to receive notice of the meeting at least ten (10) Business Days before the meeting and a copy of the minutes of the meeting shall be sent to such Persons.
  73. A Person may participate in a meeting of the Directors or committee of the Board of Directors by conference telephone or other communications equipment by means of which all the Persons participating in the meeting can communicate with each other at the same time. Participation by a Person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors, the meeting shall be deemed to be held at the place where the chairman is at the start of the meeting. In the event of a deadlock of the votes at any meeting of the Directors, the relevant matters shall be submitted to the Members for approval, subject to compliance with Article 8.4B) hereof.
  74. A resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of the Board of Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors, or committee of the Board of Directors as the case may be, duly convened and held.
  75. Meetings of the Board of Directors may be called by any Director on forty-eight (48) hours' notice to each Director in accordance with Articles 109 through 113.
  76. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.
  77. The Directors may elect a chairman of their board and determine the period for which he or she is to hold office; but if no such chairman is elected, or if at any meeting the chairman shall not be present within ten (10) minutes after the time appointed for holding the same, the Directors present may choose one of their members to be chairman of the meeting. Neither the chairman nor any other Director shall have a casting vote.
  78. All acts done by any meeting of the Directors or of a committee of the Board of Directors shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or that they or any of them were disqualified, be as valid as if every such Person had been duly appointed and qualified to be a Director.
  79. [Intentionally left blank.]

#### ***DIRECTORS' INTERESTS***

80. Subject to Article 83, a Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his or her office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

- 
81. Subject to Article 83, a Director may act by himself or herself or his or her firm in a professional capacity for the Company and such Director or firm shall be entitled to remuneration for professional services as if such Director were not a Director.
  82. Subject to Article 83, a Director of the Company may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as Member or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by such Director as a director or officer of, or from his or her interest in, such other company.
  83. In addition to any further restrictions set forth in these Articles, no Person shall be disqualified from the office of Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director shall be in any way interested (each, an **"Interested Transaction"**) be or be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such Interested Transaction by reason of such Director holding office or of the fiduciary relation thereby established. A director shall, forthwith after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by the Company, disclose the interest to the Board. For the purposes of this Article 84, a disclosure is not made to the Board unless it is made or brought to the attention of every director on the Board. A director who is interested in a transaction entered into or to be entered into by the Company cannot: (a) vote on or approve a matter relating to the Interested Transaction; (b) be included in calculating a quorum of a meeting; or (c) sign a document on behalf of the Company, or do any other thing in his capacity as a director, that relates to the Interested Transaction.

#### *MINUTES*

84. The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any series of Shares and of the Directors, and of committees of the Board of Directors including the names of the Directors present at each meeting.

#### *DELEGATION OF DIRECTORS' POWERS*

85. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another Director to act at the meeting in the place of the absent or disqualified member if such other Director's appointment is approved or ratified by the Board of Directors. For the avoidance of doubt, notwithstanding the foregoing, no designation or appointment of an alternative Director in place of any Tencent Director shall be made according to the aforesaid procedures without the prior written consent of the holder(s) of the Preferred Shares who is entitled to appoint and remove such Tencent Director.

- 
86. Subject to Article 8.4B), any committee, to the extent allowed by law and provided in the resolution establishing such committee (which shall include the approval of the Tencent Director), shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company. Each committee shall keep regular minutes and report to the Board of Directors when required. Subject to these Articles, the proceedings of a committee of the Board of Directors shall be governed by the Articles regulating the proceedings of the Board of Directors, so far as they are capable of applying.
  87. The Board of Directors may also, with prior consent of the Tencent Director, delegate to any managing Director or any Director holding any other executive office such of their powers as they consider desirable to be exercised by such Person provided that the appointment of a managing Director shall be revoked forthwith if he or she ceases to be a Director. Any such delegation may be made subject to any conditions the Board of Directors, with prior consent of the Tencent Director, may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered.
  88. Subject to these Articles, the Directors may by power of attorney or otherwise appoint any company, firm, Person or body of Persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of Persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him or her.
  89. Subject to these Articles, the Directors may appoint such officers as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of an officer's appointment, an officer may be removed by resolution of the Directors or Members.

***NO MINIMUM SHAREHOLDING***

90. There is no minimum shareholding required to be held by a Director.

---

**REMUNERATION OF DIRECTORS**

91. The remuneration to be paid to the Directors, if any, shall be such remuneration as determined by the Board (which shall include the consent of the Tencent Director). The Director who is not an employee of any Group Company shall also be entitled to be paid all reasonable travelling, hotel and other out-of-pocket expenses properly incurred by them in connection with their attendance at meetings of the Board of Directors or committees of the Board of Directors, or general meetings of the Company, or separate meetings of the holders of any series of Shares or debentures of the Company, or otherwise in connection with the business of the Company.
92. The Directors may, by resolution of the majority of the Board (which shall include the consent of the Tencent Director), approve additional remuneration to any Director for any services other than his or her ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his or her remuneration as a Director.

**SEAL**

93. The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Board of Directors authorised by the Board of Directors. Every instrument to which the Seal has been affixed shall be signed by at least one Person who shall be either a Director or some officer or other Person appointed by the Directors for the purpose.
94. The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
95. A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his or her signature alone to any document of the Company required to be authenticated by him or her under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

**DIVIDENDS, DISTRIBUTIONS AND RESERVE**

96. Subject to the Statute and these Articles (including Article 8.4B)), the Directors may declare dividends and distributions on Shares in issue and authorise payment of the dividends or distributions out of the assets of the Company lawfully available therefor. No dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.
97. All dividends and distributions shall be declared and paid according to the provisions of Articles 8 and 9.
98. The Directors may deduct from any dividend or distribution payable to any Member all sums of money (if any) then payable by such Member to the Company on account of calls or otherwise.

- 
99. Subject to the Statute and the provisions of Articles 8 and 9, the Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.
  100. Any dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such Person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the Person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other monies payable in respect of the Share held by them as joint holders.
  101. No dividend or distribution shall bear interest against the Company, except as expressly provided in these Articles.
  102. Any dividend that cannot be paid to a Member and/or that remains unclaimed after six (6) months from the date of declaration of such dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the dividend shall remain as a debt due to the Member. All declared dividends of the Company should be paid on or before the closing of a Qualified IPO.

#### *CAPITALIZATION*

103. Subject to these Articles, including but not limited to Article 8 and Article 9, the Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend as set forth in Articles 8 and 9 hereof and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event, the Directors shall do all acts and things required to give effect to such capitalization, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any Person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

---

### *BOOKS OF ACCOUNT*

104. The Directors shall cause proper books of account to be kept at such place as they may from time to time designate with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions. The Directors shall from time to time determine whether and to what extent and at what times and places, and under what conditions or regulations, the accounts and books of the Company or any of them shall be open to inspection of Members not being Directors and no such Member shall have any right of inspecting any account or book or document of the Company except as conferred by the Statute or authorized by the Directors or the Company in general meeting or in a written agreement binding on the Company.
105. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

### *AUDIT*

106. Subject to Article 8.4B), the Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors, and may fix the Auditor's remuneration.
107. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.
108. Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company that is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company that is registered with the Registrar of Companies as an exempted company and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

### *NOTICES*

109. Except as otherwise provided in these Articles, notices shall be in writing. Notice may be given by the Company to any Member or Director either personally or by sending it by next-day or second-day courier service, fax, electronic mail or similar means to such Member or Director (as the case may be) or to the address of such Member or Director as shown in the Register of Members or the Register of Directors (as the case may be) (or where the notice is given by electronic mail by sending it to the electronic mail address provided by such Member or Director). Notwithstanding the foregoing, notice of a general meeting of the Members under Article 42 or a meeting of the Board under Article 71 may only be given by the Company to any Member or Director in writing by sending it by next-day or second-day courier service, fax, or similar means to such Member or Director (as the case may be) or to the address of such Member or Director as shown in the Register of Members or the Register of Directors (as the case may be).

- 
110. Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a confirmation of delivery, and to have been effected at the expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by fax to a fax number provided by the intended recipient, service of the notice shall be deemed to be effected when the receipt of the fax is acknowledged by the recipient. Where a notice is given by electronic mail to the electronic mail address provided by the intended recipient, service shall be deemed to be effected when the receipt of the electronic mail is acknowledged by the recipient.
  111. A notice may be given by the Company to the Person or Persons that the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices that are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the Persons claiming to be so entitled, or at the option of the Company, by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
  112. Notice of every general meeting shall be given in any manner hereinbefore authorised to every Person shown as a Member in the Register of Members on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every Person upon whom the ownership of a Share devolves by reason of his or her being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his or her death or bankruptcy would be entitled to receive notice of the meeting, and no other Person shall be entitled to receive notices of general meetings.
  113. Whenever any notice is required by law or these Articles to be given to any Director, member of a committee or Member, a waiver thereof in writing, signed by the Person or Persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

#### ***WINDING UP***

114. If the Company shall be wound up, assets available for distribution amongst the Members shall be distributed, in accordance with Articles 8 and 9.

- 
115. Subject to the provisions of Articles 8 and 9, if the Company shall be wound up, the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

#### *INDEMNITY*

116. To the maximum extent permitted by applicable law, the Directors and officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall be indemnified out of the assets of the Company from and against all actions, proceedings, costs, charges, losses, damages and expenses that they or any of them shall or may incur or sustain by reason of any act done or omitted in or about the execution of their duty in their respective offices or trusts, except such (if any) as they shall incur or sustain by or through their own fraud or dishonesty, and no such Director or officer or trustee shall be answerable for the acts, receipts, neglects or defaults of any other Director or officer or trustee or for joining in any receipt for the sake of conformity or for the solvency or honesty of any banker or other Persons with whom any monies or effects belonging to the Company may be lodged or deposited for safe custody or for any insufficiency of any security upon which any monies of the Company may be invested or for any other loss or damage due to any such cause as aforesaid or which may happen in or about the execution of his or her office or trust unless the same shall happen through the fraud or dishonesty of such Director or officer or trustee. Except with respect to proceedings to enforce rights to indemnification pursuant to this Article, the Company shall indemnify any such indemnitee pursuant to this Article in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Article shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition to the maximum extent provided by, and subject to the requirements of, applicable law, so long as the indemnitee agrees with the Company to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Article.
117. To the maximum extent permitted by applicable law, the Directors and officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall not be personally liable to the Company or its Members for monetary damages for breach of their duty in their respective offices, except such (if any) as they shall incur or sustain by or through their own fraud or dishonesty respectively.

---

*FINANCIAL YEAR*

118. Unless the Directors otherwise prescribe, the financial year of the Company shall end on the 31st of December in each year and, following the year of incorporation, shall begin on the 1st of January in each year.

*TRANSFER BY WAY OF CONTINUATION*

119. If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution and the written consent of the Majority Preferred Holders, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

*REPURCHASE FOR NON-COMPLIANCE*

120. In the event that, as a result of any Person holding a direct or indirect interest in any Shares, any Governmental Authority prohibits any of the Group Companies from distributing all or any part of the earnings or cash or other assets thereof to offshore shareholders therein or refuses to grant, revoke or suspend any consent, approval, license or permit (the “**Consent**”) necessary to the operation, maintenance, ownership or status of any Group Company or its business in the ordinary course and the Person holding such interest fails to cure such situation within 30 days after receiving written notice from the Company, then to the extent necessary to eliminate such prohibition or to secure such Consent, the Company shall subject to applicable laws, at the request of the Majority Preferred Holders repurchase all, but not less than all, of such Shares (the “**Non-Compliance Shares**”) at the original subscription price thereof (as adjusted for any share dividends, combinations, splits, recapitalizations and the like). A repurchase pursuant to this Article shall be deemed an Exempted Distribution.
121. A written notice of repurchase shall be given by the Company to the Person whose name appears on the share register as the holder of the Non-Compliance Shares (the “**Registered Holder**”) at the address listed on the register of members at least five (5) Business Days before the date for repurchase (the “**Non-Compliance Date**”) set forth in the notice. The notice shall also set forth the applicable repurchase price and the mechanics of repurchase.
122. At the Non-Compliance Date, the Company shall subject to applicable laws, pay the aggregate repurchase price to the Registered Holder, and the Registered Holder shall (i) surrender the share certificate(s) evidencing the Non-Compliance Shares or (ii) in the case of any lost, stolen or destroyed certificate evidencing the Non-Compliance Shares, execute an agreement reasonably satisfactory to the Company to indemnify the Company for any loss incurred by it in connection with such loss, stolen or destroyed certificate. From and after the Non-Compliance Date, so long as the Company has made available such repurchase price to such Registered Holder, the Non-Compliance Shares shall be treated as redeemed and shall be deemed to be no longer outstanding, and the holders thereof shall cease to be shareholders with respect to such shares or have any rights or remedies with respect thereto (other than the right to receive the aggregate repurchase price therefor).

- 
123. Notwithstanding anything to the contrary contained herein, any Non-Compliance Shares with respect to which the Company has failed to pay the repurchase price as required shall continue to have all the powers, designations, preferences and other rights which such shares enjoyed prior to the Non-Compliance Date until such time as the repurchase price in respect of such Non-Compliance Shares shall have been paid in full. If the Company cannot consummate the repurchase of the Non-Compliance Shares because of insufficient funds or limitations under applicable law, the Company may, and shall at the request of the Majority Preferred Holders, request the Registered Holder to transfer the Non-Compliance Shares to the other Members of the Company pro rata at a price equal to the original subscription price thereof, and the provisions above shall apply, *mutatis mutandis*. For the avoidance of doubt none of the transfer restrictions set forth under Article 16, the Right of First Refusal and Co-Sale Agreement and/or the Shareholders Agreement shall apply to any transfer under this Article 123.

***DRAG ALONG RIGHTS***

124. If at any time prior to a Qualified IPO (i) the Majority Ordinary Holders and (ii) the Majority Preferred Holders (collectively, the “**Drag Holders**”) approve (a) a Deemed Liquidation Event or (b) other sale of the Company, in each case in which the Valuation of the Company shall be no less than US\$1,000,000,000, whether structured as a merger, reorganization, asset sale, share sale, sale of control of the Company, or otherwise (collectively the “**Approved Sale**”), to any Person (the “**Offeror**”), then at the request of the Drag Holders, the Company shall promptly deliver a written notice (the “**Drag-Along Notice**”) to notify each other Member of such approval and the material terms and conditions of such proposed Approved Sale, whereupon each such Member shall, in accordance with instructions received from the Company at the direction of the Drag Holders:
- (i) Sell, at the same time as the Drag Holders sell to the Offeror, in the Approved Sale, all of its Equity Securities of the Company or the same percentage of its Equity Securities of the Company as the Drag Holders sell, on the same terms and conditions as were agreed to by the Drag Holders;
  - (ii) Vote all of its Equity Securities of the Company (a) in favor of such Approved Sale, (b) against any other consolidation, recapitalization, amalgamation, merger, sale of securities, sale of assets, business combination, or transaction that would interfere with, delay, restrict, or otherwise adversely affect such Approved Sale, and (c) against any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company under the definitive agreement(s) related to such Approved Sale or that could result in any of the conditions to the closing obligations under such agreement(s) not being fulfilled, and, in connection therewith, to be present (in person or by proxy) at all relevant meetings of the shareholders of the Company (or adjournments thereof) or to approve and execute all relevant written consents in lieu of a meeting.
  - (iii) Not exercise any dissenters’ or appraisal rights under applicable law with respect to such Approved Sale.

---

(iv) Take all necessary actions in connection with the consummation of such Approved Sale as reasonably requested by the Drag Holders, including but not limited to the execution and delivery of any share transfer or other agreements prepared in connection with such Approved Sale, and the delivery, at the closing of such Approved Sale involving a sale of stock, of all certificates representing Shares held or controlled by such Member, duly endorsed for transfer or accompanied by a duly executed share transfer form, or affidavits and indemnity undertakings with respect to lost certificates.

(v) Restructure such Approved Sale, as and if reasonably requested by the Drag Holders, as a merger, consolidation, restructuring or similar transaction, or a sale of all or substantially all of the assets of the Company, or otherwise.

In any such Approved Sale, (i) each Member shall bear a proportionate share (based upon the relative proceeds received in such transaction) of the expenses reasonably incurred in the transaction, including, without limitation, legal, accounting and investment banking fees and expenses, and (ii) each Member shall severally, not jointly, join on a pro rata basis (based upon the relative proceeds received in such transaction) in any indemnification or other obligations that are part of the terms and conditions of such Approved Sale (other than those that relate specifically to a particular Member, such as indemnification with respect to representations and warranties given by such Member regarding such Member's title to and ownership of shares, due authorization, enforceability, and no conflicts, which shall instead be given solely by such Member) but only up to the net proceeds paid to such Member in connection with such Approved Sale. Without limiting the foregoing sentence, no Member who is not an employee or officer or controlling shareholder of a Group Company shall be required to make any representations or warranties other than with respect to itself (including due authorization, title to shares, enforceability of applicable agreements, and similar representations and warranties).

Notwithstanding anything to the contrary contained herein, upon the consummation of an Approved Sale in accordance with this Article 124, the consideration received from the purchaser shall be paid to the Company (regardless of the means by which the purchaser obtains the relevant equity interests in the Company) as trustee of such funds for the Members, and then the Company shall distribute such consideration in accordance with Article 8.2.

125. In the event that any Member fails for any reason to take any of the foregoing actions under Article 124 following the Drag-Along Notice, such Member hereby grants an irrevocable power of attorney and proxy to any Director approving the Approved Sale to take all necessary actions and execute and deliver all documents deemed by such Director to be reasonably necessary to effectuate the terms hereof.
126. None of the transfer restrictions set forth in the Right of First Refusal and Co-Sale Agreement, the Shareholders Agreement or any other agreement shall apply in connection with an Approved Sale, notwithstanding anything contained to the contrary in the Right of First Refusal and Co-Sale Agreement the Shareholders Agreement or any other agreement.

**THE COMPANIES LAW (2018 REVISION)**  
**OF THE CAYMAN ISLANDS**  
**COMPANY LIMITED BY SHARES**  
**FOURTH AMENDED AND RESTATED**  
**MEMORANDUM OF ASSOCIATION**  
**OF**  
**FUTU HOLDINGS LIMITED**  
**富途控股有限公司**

(adopted by a Special Resolution passed on \_\_\_\_\_, 2018 and effective immediately prior to the completion of the initial public offering of the Company's American Depositary Shares representing its Class A Ordinary Shares)

1. The name of the Company is Futu Holdings Limited 富途控股有限公司.
2. The Registered Office of the Company will be situated at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other location within the Cayman Islands as the Directors may from time to time determine.
3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.
4. The Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit as provided by the Companies Law.
5. The Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; provided that nothing in this section shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.
6. The liability of each Shareholder is limited to the amount, if any, unpaid on the Shares held by such Shareholder.
7. The authorised share capital of the Company is US\$500,000 divided into 50,000,000,000 shares comprising of (i) 48,700,000,000 Class A Ordinary Shares of a par value of US\$0.00001 each, (ii) 800,000,000 Class B Ordinary Shares of a par value of US\$0.00001 each and (iii) 500,000,000 shares of a par value of US\$0.00001 each of such class or classes (however designated) as the board of directors may determine in accordance with Article 9 of the Articles. Subject to the Companies Law and the Articles, the Company shall have power to redeem or purchase any of its Shares and to increase or reduce its authorised share capital and to sub-divide or consolidate the said Shares or any of them and to issue all or any part of its capital whether original, redeemed, increased or reduced with or without any preference, priority, special privilege or other rights or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide every issue of shares whether stated to be ordinary, preference or otherwise shall be subject to the powers on the part of the Company hereinbefore provided.
8. The Company has the power contained in the Companies Law to deregister in the Cayman Islands and be registered by way of continuation in some other jurisdiction.
9. Capitalised terms that are not defined in this Memorandum of Association bear the same meanings as those given in the Articles of Association of the Company.

THE COMPANIES LAW (2018 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

FOURTH AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

FUTU HOLDINGS LIMITED

富途控股有限公司

(adopted by a Special Resolution passed on \_\_\_\_\_, 2018 and effective immediately prior to the completion of the initial public offering of the Company's American Depositary Shares representing its Class A Ordinary Shares)

TABLE A

The regulations contained or incorporated in Table 'A' in the First Schedule of the Companies Law shall not apply to the Company and the following Articles shall comprise the Articles of Association of the Company.

INTERPRETATION

1. In these Articles the following defined terms will have the meanings ascribed to them, if not inconsistent with the subject or context:

<b>“ADS”</b>	means an American Depositary Share representing Class A Ordinary Shares;
<b>“Affiliate”</b>	means in respect of a Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person, and (i) in the case of a natural person, shall include, without limitation, such person's spouse, parents, children, siblings, mother-in-law, father-in-law, brothers-in-law and sisters-in-law, a trust for the benefit of any of the foregoing, and a corporation, partnership or any other entity wholly or jointly owned by any of the foregoing, and (ii) in the case of an entity, shall include a partnership, a corporation or any other entity or any natural person which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such entity. The term “control” shall mean the ownership, directly or indirectly, of shares possessing more than fifty per cent (50%) of the voting power of the corporation, partnership or other entity (other than, in the case of a corporation, securities having such power only by reason of the happening of a contingency), or having the power to control the management or elect a majority of members to the board of directors or equivalent decision-making body of such corporation, partnership or other entity;
<b>“Articles”</b>	means these articles of association of the Company, as amended or substituted from time to time;
<b>“Board” and “Board of Directors” and “Directors”</b>	means the directors of the Company for the time being, or as the case may be, the directors assembled as a board or as a committee thereof;
<b>“Chairman”</b>	means the chairman of the Board of Directors;
<b>“Class” or “Classes”</b>	means any class or classes of Shares as may from time to time be issued by the Company;

<b>“Class A Ordinary Share”</b>	means a Class A Ordinary Share of a par value of US\$0.00001 in the capital of the Company and having the rights provided for in these Articles;
<b>“Class B Ordinary Share”</b>	means a Class B Ordinary Share of a par value of US\$0.00001 in the capital of the Company and having the rights provided for in these Articles;
<b>“Commission”</b>	means the Securities and Exchange Commission of the United States of America or any other federal agency for the time being administering the Securities Act;
<b>“Company”</b>	means Futu Holdings Limited 富途控股有限公司, a Cayman Islands exempted company;
<b>“Companies Law”</b>	means the Companies Law (2018 Revision) of the Cayman Islands and any statutory amendment or re-enactment thereof;
<b>“Company’s Website”</b>	means the main corporate/investor relations website of the Company, the address or domain name of which has been disclosed in any registration statement filed by the Company with the Commission in connection with its initial public offering of ADSs, or which has otherwise been notified to Shareholders;
<b>“Designated Stock Exchange”</b>	means the stock exchange in the United States on which any Shares and ADSs are listed for trading;
<b>“Designated Stock Exchange Rules”</b>	means the relevant code, rules and regulations, as amended, from time to time, applicable as a result of the original and continued listing of any Shares or ADSs on the Designated Stock Exchange;
<b>“electronic”</b>	has the meaning given to it in the Electronic Transactions Law and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;
<b>“electronic communication”</b>	means electronic posting to the Company’s Website, transmission to any number, address or internet website or other electronic delivery methods as otherwise decided and approved by not less than two-thirds of the vote of the Board;
<b>“Electronic Transactions Law”</b>	means the Electronic Transactions Law (2003 Revision) of the Cayman Islands and any statutory amendment or re-enactment thereof;
<b>“electronic record”</b>	has the meaning given to it in the Electronic Transactions Law and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;
<b>“Founder”</b>	means Hua Li;
<b>“Memorandum of Association”</b>	means the memorandum of association of the Company, as amended or substituted from time to time;
<b>“Ordinary Resolution”</b>	means a resolution: <ul style="list-style-type: none"> <li>(a) passed by a simple majority of the votes cast by such Shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives, at a general meeting of the Company held in accordance with these Articles; or</li> <li>(b) approved in writing by all of the Shareholders entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Shareholders and the effective date of the resolution so adopted shall be the date on which the instrument, or the last of such instruments, if more than one, is executed;</li> </ul>

---

<b>“Ordinary Share”</b>	means a Class A Ordinary Share or a Class B Ordinary Share;
<b>“paid up”</b>	means paid up as to the par value in respect of the issue of any Shares and includes credited as paid up;
<b>“Person”</b>	means any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires;
<b>“Register”</b>	means the register of Members of the Company maintained in accordance with the Companies Law;
<b>“Registered Office”</b>	means the registered office of the Company as required by the Companies Law;
<b>“Seal”</b>	means the common seal of the Company (if adopted) including any facsimile thereof;
<b>“Secretary”</b>	means any Person appointed by the Directors to perform any of the duties of the secretary of the Company;
<b>“Securities Act”</b>	means the Securities Act of 1933 of the United States of America, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time;
<b>“Share”</b>	means a share in the capital of the Company. All references to “Shares” herein shall be deemed to be Shares of any or all Classes as the context may require. For the avoidance of doubt in these Articles the expression “Share” shall include a fraction of a Share;
<b>“Shareholder” or “Member”</b>	means a Person who is registered as the holder of one or more Shares in the Register;
<b>“Share Premium Account”</b>	means the share premium account established in accordance with these Articles and the Companies Law;
<b>“signed”</b>	means bearing a signature or representation of a signature affixed by mechanical means or an electronic symbol or process attached to or logically associated with an electronic communication and executed or adopted by a Person with the intent to sign the electronic communication;
<b>“Special Resolution”</b>	means a special resolution of the Company passed in accordance with the Companies Law, being a resolution: <ul style="list-style-type: none"> <li>(a) passed by not less than two-thirds of the votes cast by such Shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives, at a general meeting of the Company of which notice specifying the intention to propose the resolution as a special resolution has been duly given; or</li> <li>(b) approved in writing by all of the Shareholders entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Shareholders and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments, if more than one, is executed;</li> </ul>
<b>“Tencent Investors”</b>	mean Image Frame Investment (HK) Limited and Qiantang River Investment Limited

---

**“Treasury Share”** means a Share held in the name of the Company as a treasury share in accordance with the Companies Law; and

**“United States”** means the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

2. In these Articles, save where the context requires otherwise:
- (a) words importing the singular number shall include the plural number and vice versa;
  - (b) words importing the masculine gender only shall include the feminine gender and any Person as the context may require;
  - (c) the word “may” shall be construed as permissive and the word “shall” shall be construed as imperative;
  - (d) reference to a dollar or dollars (or US\$) and to a cent or cents is reference to dollars and cents of the United States of America;
  - (e) reference to a statutory enactment shall include reference to any amendment or re-enactment thereof for the time being in force;
  - (f) reference to any determination by the Directors shall be construed as a determination by the Directors in their sole and absolute discretion and shall be applicable either generally or in any particular case;
  - (g) reference to “in writing” shall be construed as written or represented by any means reproducible in writing, including any form of print, lithograph, email, facsimile, photograph or telex or represented by any other substitute or format for storage or transmission for writing including in the form of an electronic record or partly one and partly another;
  - (h) any requirements as to delivery under the Articles include delivery in the form of an electronic record or an electronic communication;
  - (i) any requirements as to execution or signature under the Articles, including the execution of the Articles themselves, can be satisfied in the form of an electronic signature as defined in the Electronic Transaction Law; and
  - (j) Sections 8 and 19(3) of the Electronic Transactions Law shall not apply.
3. Subject to the last two preceding Articles, any words defined in the Companies Law shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

#### **PRELIMINARY**

4. The business of the Company may be conducted as the Directors see fit.
5. The Registered Office shall be at such address in the Cayman Islands as the Directors may from time to time determine. The Company may in addition establish and maintain such other offices and places of business and agencies in such places as the Directors may from time to time determine.
6. The expenses incurred in the formation of the Company and in connection with the offer for subscription and issue of Shares shall be paid by the Company. Such expenses may be amortised over such period as the Directors may determine and the amount so paid shall be charged against income and/or capital in the accounts of the Company as the Directors shall determine.
7. The Directors shall keep, or cause to be kept, the Register at such place as the Directors may from time to time determine and, in the absence of any such determination, the Register shall be kept at the Registered Office.

---

## SHARES

8. Subject to these Articles, all Shares for the time being unissued shall be under the control of the Directors who may, in their absolute discretion and without the approval of the Members, cause the Company to:
- (a) issue, allot and dispose of Shares (including, without limitation, preferred shares) (whether in certificated form or non-certificated form) to such Persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine;
  - (b) grant rights over Shares or other securities to be issued in one or more classes or series as they deem necessary or appropriate and determine the designations, powers, preferences, privileges and other rights attaching to such Shares or securities, including dividend rights, voting rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers, preferences, privileges and rights associated with the then issued and outstanding Shares, at such times and on such other terms as they think proper; and
  - (c) grant options with respect to Shares and issue warrants or similar instruments with respect thereto.
9. The Directors may authorise the division of Shares into any number of Classes and the different Classes shall be authorised, established and designated (or re-designated as the case may be) and the variations in the relative rights (including, without limitation, voting, dividend and redemption rights), restrictions, preferences, privileges and payment obligations as between the different Classes (if any) may be fixed and determined by the Directors or by a Special Resolution. The Directors may issue Shares with such preferred or other rights, all or any of which may be greater than the rights of Ordinary Shares, at such time and on such terms as they may think appropriate. Notwithstanding Article 17, the Directors may issue from time to time, out of the authorised share capital of the Company (other than the authorised but unissued Ordinary Shares), series of preferred shares in their absolute discretion and without approval of the Members; provided, however, before any preferred shares of any such series are issued, the Directors shall by resolution of Directors determine, with respect to any series of preferred shares, the terms and rights of that series, including:
- (a) the designation of such series, the number of preferred shares to constitute such series and the subscription price thereof if different from the par value thereof;
  - (b) whether the preferred shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited;
  - (c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, and the preference or relation which such dividends shall bear to the dividends payable on any shares of any other class or any other series of shares;
  - (d) whether the preferred shares of such series shall be subject to redemption by the Company, and, if so, the times, prices and other conditions of such redemption;
  - (e) whether the preferred shares of such series shall have any rights to receive any part of the assets available for distribution amongst the Members upon the liquidation of the Company, and, if so, the terms of such liquidation preference, and the relation which such liquidation preference shall bear to the entitlements of the holders of shares of any other class or any other series of shares;
  - (f) whether the preferred shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the preferred shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;

- 
- (g) whether the preferred shares of such series shall be convertible into, or exchangeable for, shares of any other class or any other series of preferred shares or any other securities and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;
  - (h) the limitations and restrictions, if any, to be effective while any preferred shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Company of, the existing shares or shares of any other class of shares or any other series of preferred shares;
  - (i) the conditions or restrictions, if any, upon the creation of indebtedness of the Company or upon the issue of any additional shares, including additional shares of such series or of any other class of shares or any other series of preferred shares; and
  - (j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof;

and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued. The Company shall not issue Shares to bearer.

- 10. The Company may insofar as may be permitted by law, pay a commission to any Person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any Shares. Such commissions may be satisfied by the payment of cash or the lodgment of fully or partly paid-up Shares or partly in one way and partly in the other. The Company may also pay such brokerage as may be lawful on any issue of Shares.
- 11. The Directors may refuse to accept any application for Shares, and may accept any application in whole or in part, for any reason or for no reason.

#### **CLASS A ORDINARY SHARES AND CLASS B ORDINARY SHARES**

- 12. Holders of Class A Ordinary Shares and Class B Ordinary Shares shall at all times vote together as one class on all resolutions submitted to a vote by the Members. Each Class A Ordinary Share shall entitle the holder thereof to one (1) vote on all matters subject to vote at general meetings of the Company, and each Class B ordinary share shall entitle the holder thereof to twenty (20) votes on all matters subject to vote at general meetings of the Company.
- 13. Each Class B Ordinary Share is convertible into one (1) Class A Ordinary Share at any time at the option of the holder thereof. The right to convert shall be exercisable by the holder of the Class B Ordinary Share delivering a written notice to the Company that such holder elects to convert a specified number of Class B Ordinary Shares into Class A Ordinary Shares. In no event shall Class A Ordinary Shares be convertible into Class B Ordinary Shares.
- 14. Any conversion of Class B Ordinary Shares into Class A Ordinary Shares pursuant to these Articles shall be effected by means of the re-designation of each relevant Class B Ordinary Share as a Class A Ordinary Share. Such conversion shall become effective (i) in the case of any conversion effected pursuant to Article 13, forthwith upon the receipt by the Company of the written notice delivered to the Company as described in Article 13 (or at such later date as may be specified in such notice), or (ii) in the case of any automatic conversion effected pursuant to Article 15, forthwith upon occurrence of the event specified in Article 15 which triggers such automatic conversion, and the Company shall make entries in the Register to record the re-designation of the relevant Class B Ordinary Shares as Class A Ordinary Shares at the relevant time.
- 15. Upon any sale, transfer, assignment or disposition of any Class B Ordinary Share by a Shareholder to any person who is not an Affiliate of such Shareholder, such Class B Ordinary Share shall be automatically and immediately converted into one Class A Ordinary Share. For the avoidance of doubt, (i) a sale, transfer, assignment or disposition shall be effective upon the Company's registration of such sale, transfer, assignment or disposition in its Register; and (ii) the creation of any pledge, charge, encumbrance or other third party right of whatever description on any Class B Ordinary Shares to secure a holder's contractual or legal obligations shall not be deemed as a sale, transfer, assignment or disposition unless and until any such pledge, charge, encumbrance or other third party right is enforced and results in the third party holding legal title to the relevant Class B Ordinary Shares, in which case all the related Class B Ordinary Shares shall be automatically converted into the same number of Class A Ordinary Shares. For purpose of this Article 15, beneficial ownership shall have the meaning set forth in Rule 13d-3 under the United States Securities Exchange Act of 1934, as amended.

- 
16. Save and except for voting rights and conversion rights as set out in Articles 12 to 16 (inclusive), the Class A Ordinary Shares and the Class B Ordinary Shares shall rank *pari passu* with one another and shall have the same rights, preferences, privileges and restrictions.

#### MODIFICATION OF RIGHTS

17. Whenever the capital of the Company is divided into different Classes the rights attached to any such Class may, subject to any rights or restrictions for the time being attached to any Class, only be materially adversely varied with the consent in writing of the holders of two-thirds of the issued Shares of that Class or with the sanction of a Special Resolution passed at a separate meeting of the holders of the Shares of that Class. To every such separate meeting all the provisions of these Articles relating to general meetings of the Company or to the proceedings thereat shall, *mutatis mutandis*, apply, except that the necessary quorum shall be one or more Persons holding or representing by proxy at least one-third in nominal or par value amount of the issued Shares of the relevant Class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those Shareholders who are present shall form a quorum) and that, subject to any rights or restrictions for the time being attached to the Shares of that Class, every Shareholder of the Class shall on a poll have one vote for each Share of the Class held by him. For the purposes of this Article the Directors may treat all the Classes or any two or more Classes as forming one Class if they consider that all such Classes would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate Classes.
18. The rights conferred upon the holders of the Shares of any Class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the Shares of that Class, be deemed to be materially adversely varied by, inter alia, the creation, allotment or issue of further Shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any Shares of any Class by the Company. The rights of the holders of Shares shall not be deemed to be materially adversely varied by the creation or issue of Shares with preferred or other rights including, without limitation, the creation of Shares with enhanced or weighted voting rights.

#### CERTIFICATES

19. Every Person whose name is entered as a Member in the Register may, without payment and upon its written request, request a certificate within two calendar months after allotment or lodgement of transfer (or within such other period as the conditions of issue shall provide) in the form determined by the Directors. All certificates shall specify the Share or Shares held by that Person, provided that in respect of a Share or Shares held jointly by several Persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a Share to one of several joint holders shall be sufficient delivery to all. All certificates for Shares shall be delivered personally or sent through the post addressed to the Member entitled thereto at the Member's registered address as appearing in the Register.
20. Every share certificate of the Company shall bear legends required under the applicable laws, including the Securities Act.
21. Any two or more certificates representing Shares of any one Class held by any Member may at the Member's request be cancelled and a single new certificate for such Shares issued in lieu on payment (if the Directors shall so require) of one dollar (US\$1.00) or such smaller sum as the Directors shall determine.
22. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Shares may be issued to the relevant Member upon request, subject to delivery up of the old certificate or (if alleged to have been lost, stolen or destroyed) compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit.

- 
23. In the event that Shares are held jointly by several Persons, any request may be made by any one of the joint holders and if so made shall be binding on all of the joint holders.

#### **FRACTIONAL SHARES**

24. The Directors may issue fractions of a Share and, if so issued, a fraction of a Share shall be subject to and carry the corresponding fraction of liabilities (whether with respect to nominal or par value, premium, contributions, calls or otherwise), limitations, preferences, privileges, qualifications, restrictions, rights (including, without prejudice to the generality of the foregoing, voting and participation rights) and other attributes of a whole Share. If more than one fraction of a Share of the same Class is issued to or acquired by the same Shareholder such fractions shall be accumulated.

#### **LIEN**

25. The Company has a first and paramount lien on every Share (whether or not fully paid) for all amounts (whether presently payable or not) payable at a fixed time or called in respect of that Share. The Company also has a first and paramount lien on every Share registered in the name of a Person indebted or under liability to the Company (whether he is the sole registered holder of a Share or one of two or more joint holders) for all amounts owing by him or his estate to the Company (whether or not presently payable). The Directors may at any time declare a Share to be wholly or in part exempt from the provisions of this Article. The Company's lien on a Share extends to any amount payable in respect of it, including but not limited to dividends.
26. The Company may sell, in such manner as the Directors in their absolute discretion think fit, any Share on which the Company has a lien, but no sale shall be made unless an amount in respect of which the lien exists is presently payable nor until the expiration of fourteen calendar days after a notice in writing, demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the Share, or the Persons entitled thereto by reason of his death or bankruptcy.
27. For giving effect to any such sale the Directors may authorise a Person to transfer the Shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the Shares comprised in any such transfer and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
28. The proceeds of the sale after deduction of expenses, fees and commissions incurred by the Company shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the Shares prior to the sale) be paid to the Person entitled to the Shares immediately prior to the sale.

#### **CALLS ON SHARES**

29. Subject to the terms of the allotment, the Directors may from time to time make calls upon the Shareholders in respect of any moneys unpaid on their Shares, and each Shareholder shall (subject to receiving at least fourteen calendar days' notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on such Shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.
30. The joint holders of a Share shall be jointly and severally liable to pay calls in respect thereof.
31. If a sum called in respect of a Share is not paid before or on the day appointed for payment thereof, the Person from whom the sum is due shall pay interest upon the sum at the rate of eight percent per annum from the day appointed for the payment thereof to the time of the actual payment, but the Directors shall be at liberty to waive payment of that interest wholly or in part.
32. The provisions of these Articles as to the liability of joint holders and as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the amount of the Share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.

- 
33. The Directors may make arrangements with respect to the issue of partly paid Shares for a difference between the Shareholders, or the particular Shares, in the amount of calls to be paid and in the times of payment.
  34. The Directors may, if they think fit, receive from any Shareholder willing to advance the same all or any part of the moneys uncalled and unpaid upon any partly paid Shares held by him, and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding without the sanction of an Ordinary Resolution, eight percent per annum) as may be agreed upon between the Shareholder paying the sum in advance and the Directors. No such sum paid in advance of calls shall entitle the Member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

#### **FORFEITURE OF SHARES**

35. If a Shareholder fails to pay any call or instalment of a call in respect of partly paid Shares on the day appointed for payment, the Directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.
36. The notice shall name a further day (not earlier than the expiration of fourteen calendar days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.
37. If the requirements of any such notice as aforesaid are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by notice has been made, be forfeited by a resolution of the Directors to that effect.
38. A forfeited Share may be sold or otherwise disposed of on such terms and in such manner as the Directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit.
39. A Person whose Shares have been forfeited shall cease to be a Shareholder in respect of the forfeited Shares, but shall, notwithstanding, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares forfeited, but his liability shall cease if and when the Company receives payment in full of the amount unpaid on the Shares forfeited.
40. A certificate in writing under the hand of a Director that a Share has been duly forfeited on a date stated in the certificate shall be conclusive evidence of the facts in the declaration as against all Persons claiming to be entitled to the Share.
41. The Company may receive the consideration, if any, given for a Share on any sale or disposition thereof pursuant to the provisions of these Articles as to forfeiture and may execute a transfer of the Share in favour of the Person to whom the Share is sold or disposed of and that Person shall be registered as the holder of the Share and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Shares be affected by any irregularity or invalidity in the proceedings in reference to the disposition or sale.
42. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a Share becomes due and payable, whether on account of the amount of the Share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### **TRANSFER OF SHARES**

43. The instrument of transfer of any Share shall be in writing and in any usual or common form or such other form as the Directors may, in their absolute discretion, approve and be executed by or on behalf of the transferor and if in respect of a nil or partly paid up Share, or if so required by the Directors, shall also be executed on behalf of the transferee and shall be accompanied by the certificate (if any) of the Shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a Shareholder until the name of the transferee is entered in the Register in respect of the relevant Shares.

- 
44. (a) The Directors may in their absolute discretion decline to register any transfer of Shares which is not fully paid up or on which the Company has a lien.
- (b) The Directors may also decline to register any transfer of any Share unless:
- (i) the instrument of transfer is lodged with the Company, accompanied by the certificate for the Shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
  - (ii) the instrument of transfer is in respect of only one Class of Shares;
  - (iii) the instrument of transfer is properly stamped, if required;
  - (iv) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four; and
  - (v) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable, or such lesser sum as the Board of Directors may from time to time require, is paid to the Company in respect thereof.
45. The registration of transfers may, on ten calendar days' notice being given by advertisement in such one or more newspapers, by electronic means or by any other means in accordance with the Designated Stock Exchange Rules, be suspended and the Register closed at such times and for such periods as the Directors may, in their absolute discretion, from time to time determine, provided always that such registration of transfer shall not be suspended nor the Register closed for more than thirty calendar days in any calendar year.
46. All instruments of transfer that are registered shall be retained by the Company. If the Directors refuse to register a transfer of any Shares, they shall within three calendar months after the date on which the transfer was lodged with the Company send notice of the refusal to each of the transferor and the transferee.

#### **TRANSMISSION OF SHARES**

47. The legal personal representative of a deceased sole holder of a Share shall be the only Person recognised by the Company as having any title to the Share. In the case of a Share registered in the name of two or more holders, the survivors or survivor, or the legal personal representatives of the deceased survivor, shall be the only Person recognised by the Company as having any title to the Share.
48. Any Person becoming entitled to a Share in consequence of the death or bankruptcy of a Shareholder shall, upon such evidence being produced as may from time to time be required by the Directors, have the right either to be registered as a Shareholder in respect of the Share or, instead of being registered himself, to make such transfer of the Share as the deceased or bankrupt Person could have made; but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the deceased or bankrupt Person before the death or bankruptcy.
49. A Person becoming entitled to a Share by reason of the death or bankruptcy of a Shareholder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered Shareholder, except that he shall not, before being registered as a Shareholder in respect of the Share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company, provided however, that the Directors may at any time give notice requiring any such Person to elect either to be registered himself or to transfer the Share, and if the notice is not complied with within ninety calendar days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

---

## **REGISTRATION OF EMPOWERING INSTRUMENTS**

50. The Company shall be entitled to charge a fee not exceeding one dollar (US\$1.00) on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, notice in lieu of distringas, or other instrument.

## **ALTERATION OF SHARE CAPITAL**

51. The Company may from time to time by Ordinary Resolution increase the share capital by such sum, to be divided into Shares of such Classes and amount, as the resolution shall prescribe.
52. The Company may by Ordinary Resolution:
- (a) increase its share capital by new Shares of such amount as it thinks expedient;
  - (b) consolidate and divide all or any of its share capital into Shares of a larger amount than its existing Shares;
  - (c) subdivide its Shares, or any of them, into Shares of an amount smaller than that fixed by the Memorandum, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; and
  - (d) cancel any Shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any Person and diminish the amount of its share capital by the amount of the Shares so cancelled.
53. The Company may by Special Resolution reduce its share capital and any capital redemption reserve in any manner authorised by law.

## **REDEMPTION, PURCHASE AND SURRENDER OF SHARES**

54. Subject to the provisions of the Companies Law and these Articles, the Company may:
- (a) issue Shares that are to be redeemed or are liable to be redeemed at the option of the Shareholder or the Company. The redemption of Shares shall be effected in such manner and upon such terms as may be determined, before the issue of such Shares, by either the Board or by the Shareholders by Special Resolution;
  - (b) purchase its own Shares (including any redeemable Shares) on such terms and in such manner and terms as have been approved by the Board or by the Members by Ordinary Resolution, or are otherwise authorised by these Articles; and
  - (c) make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Companies Law, including out of capital.
55. The purchase of any Share shall not oblige the Company to purchase any other Share other than as may be required pursuant to applicable law and any other contractual obligations of the Company.
56. The holder of the Shares being purchased shall be bound to deliver up to the Company the certificate(s) (if any) thereof for cancellation and thereupon the Company shall pay to him the purchase or redemption monies or consideration in respect thereof.
57. The Directors may accept the surrender for no consideration of any fully paid Share.

## **TREASURY SHARES**

58. The Directors may, prior to the purchase, redemption or surrender of any Share, determine that such Share shall be held as a Treasury Share.
59. The Directors may determine to cancel a Treasury Share or transfer a Treasury Share on such terms as they think proper (including, without limitation, for nil consideration).

---

## GENERAL MEETINGS

60. All general meetings other than annual general meetings shall be called extraordinary general meetings.
61. (a) The Company may (but shall not be obliged to) in each calendar year hold a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as may be determined by the Directors.
- (b) At these meetings the report of the Directors (if any) shall be presented.
62. (a) The Chairman or a majority of the Directors may call general meetings, and they shall on a Shareholders' requisition forthwith proceed to convene an extraordinary general meeting of the Company.
- (b) A Shareholders' requisition is a requisition of Members holding at the date of deposit of the requisition Shares which carry in aggregate not less than one-third (1/3) of all votes attaching to all issued and outstanding Shares of the Company that as at the date of the deposit carry the right to vote at general meetings of the Company.
- (c) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
- (d) If there are no Directors as at the date of the deposit of the Shareholders' requisition, or if the Directors do not within twenty-one calendar days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one calendar days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three calendar months after the expiration of the said twenty-one calendar days.
- (e) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

## NOTICE OF GENERAL MEETINGS

63. At least ten (10) calendar days' notice shall be given for any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this Article has been given and whether or not the provisions of these Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of an annual general meeting, by all the Shareholders (or their proxies) entitled to attend and vote thereat; and
- (b) in the case of an extraordinary general meeting, by two-thirds (2/3rd) of the Shareholders having a right to attend and vote at the meeting, present in person or by proxy or, in the case of a corporation or other non-natural person, by its duly authorised representative or proxy.
64. The accidental omission to give notice of a meeting to or the non-receipt of a notice of a meeting by any Shareholder shall not invalidate the proceedings at any meeting.

## PROCEEDINGS AT GENERAL MEETINGS

65. No business except for the appointment of a chairman for the meeting shall be transacted at any general meeting unless a quorum of Shareholders is present at the time when the meeting proceeds to business. One or more Shareholders holding Shares which carry in aggregate (or representing by proxy) not less than one-third of all votes attaching to all Shares in issue and entitled to vote at such general meeting, present in person or by proxy or, if a corporation or other non-natural person, by its duly authorised representative, shall be a quorum for all purposes.

- 
66. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall be dissolved.
  67. If the Directors wish to make this facility available for a specific general meeting or all general meetings of the Company, participation in any general meeting of the Company may be by means of a telephone or similar communication equipment by way of which all Persons participating in such meeting can communicate with each other and such participation shall be deemed to constitute presence in person at the meeting.
  68. The Chairman, if any, shall preside as chairman at every general meeting of the Company.
  69. If there is no such Chairman, or if at any meeting he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as chairman of the meeting, any Director or Person nominated by the Directors shall preside as chairman of that meeting, failing which the Shareholders present in person or by proxy shall choose any Person present to be chairman of that meeting.
  70. The chairman of any general meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting, or adjourned meeting, is adjourned for fourteen calendar days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.
  71. The Directors may cancel or postpone any duly convened general meeting at any time prior to such meeting, except for general meetings requisitioned by the Shareholders in accordance with these Articles, for any reason or for no reason, upon notice in writing to Shareholders. A postponement may be for a stated period of any length or indefinitely as the Directors may determine.
  72. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the meeting or any Shareholder present in person or by proxy, and unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.
  73. If a poll is duly demanded it shall be taken in such manner as the chairman of the meeting directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
  74. All questions submitted to a meeting shall be decided by an Ordinary Resolution except where a greater majority is required by these Articles or by the Companies Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.
  75. A poll demanded on the election of a chairman of the meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

#### **VOTES OF SHAREHOLDERS**

76. Subject to any rights and restrictions for the time being attached to any Share, on a show of hands every Shareholder present in person or by proxy (or, if a corporation or other non-natural person, by its duly authorised representative or proxy) shall, at a general meeting of the Company, each have one vote and on a poll every Shareholder present in person or by proxy (or, if a corporation or other non-natural person, by its duly authorised representative or proxy) shall have one (1) vote for each Class A Ordinary Share and twenty (20) votes for each Class B Ordinary Share of which he is the holder.

- 
77. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy (or, if a corporation or other non-natural person, by its duly authorised representative or proxy) shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register.
78. Shares carrying the right to vote that are held by a Shareholder of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may be voted, whether on a show of hands or on a poll, by his committee, or other Person in the nature of a committee appointed by that court, and any such committee or other Person may vote in respect of such Shares by proxy.
79. No Shareholder shall be entitled to vote at any general meeting of the Company unless all calls, if any, or other sums presently payable by him in respect of Shares carrying the right to vote held by him have been paid.
80. On a poll votes may be given either personally or by proxy.
81. Each Shareholder, other than a recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)), may only appoint one proxy on a show of hand. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under Seal or under the hand of an officer or attorney duly authorised. A proxy need not be a Shareholder.
82. An instrument appointing a proxy may be in any usual or common form or such other form as the Directors may approve.
83. The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:
- (a) not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or
  - (b) in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or
  - (c) where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman of the meeting or to the secretary or to any Director;
- provided that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited at such other time (no later than the time for holding the meeting or adjourned meeting) at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The chairman of the meeting may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.
84. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
85. A resolution in writing signed by all the Shareholders for the time being entitled to receive notice of and to attend and vote at general meetings of the Company (or being corporations by their duly authorised representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.

#### **CORPORATIONS ACTING BY REPRESENTATIVES AT MEETINGS**

86. Any corporation which is a Shareholder or a Director may by resolution of its directors or other governing body authorise such Person as it thinks fit to act as its representative at any meeting of the Company or of any meeting of holders of a Class or of the Directors or of a committee of Directors, and the Person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Shareholder or Director.

---

## DEPOSITARY AND CLEARING HOUSES

87. If a recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) is a Member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such Person(s) as it thinks fit to act as its representative(s) at any general meeting of the Company or of any Class of Shareholders provided that, if more than one Person is so authorised, the authorisation shall specify the number and Class of Shares in respect of which each such Person is so authorised. A Person so authorised pursuant to this Article shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) could exercise if it were an individual Member holding the number and Class of Shares specified in such authorisation, including the right to vote individually on a show of hands.

## DIRECTORS

88. (a) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three (3) Directors, the exact number of Directors to be determined from time to time by the Board of Directors.
- (b) The Board of Directors shall elect and appoint a Chairman by a majority of the Directors then in office. The period for which the Chairman will hold office will also be determined by a majority of all of the Directors then in office. The Chairman shall preside as chairman at every meeting of the Board of Directors. To the extent the Chairman is not present at a meeting of the Board of Directors within fifteen minutes after the time appointed for holding the same, the attending Directors may choose one of their number to be the chairman of the meeting.
- (c) The Company may by Ordinary Resolution appoint any person to be a Director
- (d) The Board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, appoint any person as a Director, to fill a casual vacancy on the Board or as an addition to the existing Board.
- (e) An appointment of a Director may be on terms that the Director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the Company and the Director, if any; but no such term shall be implied in the absence of express provision. Each Director whose term of office expires shall be eligible for re-election at a meeting of the Shareholders or re-appointment by the Board.
- (f) Notwithstanding anything in these Articles, for as long as the Tencent Investors together hold at least 91,671,323 Shares of the Company (as may be adjusted by share splits, recapitalization, reorganization, consolidation or other similar transaction), the Tencent Investors shall have the right to appoint one (1) director to the Board ("Tencent Director") by sending a joint notice to the Company's Registered Office. Subject to Article 108, the Tencent Director may only be removed as directed or approved by both Tencent Investors, and any vacancies created by the resignation, removal or death of the Tencent Director shall be filled pursuant to the provisions of clause (f) of this Article. The term of the Tencent Director shall automatically end once the Tencent Investors together hold less than 91,671,323 Shares of the Company (as may be adjusted by share splits, recapitalization, reorganization, consolidation or other similar transaction).
- (g) A Director may be removed from office by Ordinary Resolution, notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under such agreement).
- (h) Except as otherwise provided in this Article 88, a vacancy on the Board created by the removal of a Director under the previous clause may be filled by Ordinary Resolution or by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting. The notice of any meeting at which a resolution to remove a Director shall be proposed or voted upon must contain a statement of the intention to remove that Director and such notice must be served on that Director not less than ten (10) calendar days before the meeting. Such Director is entitled to attend the meeting and be heard on the motion for his removal.

- 
89. The Board may, from time to time, and except as required by applicable law or Designated Stock Exchange Rules, adopt, institute, amend, modify or revoke the corporate governance policies or initiatives of the Company and determine on various corporate governance related matters of the Company as the Board shall determine by resolution of Directors from time to time.
  90. A Director shall not be required to hold any Shares in the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to attend and speak at general meetings.
  91. The remuneration of the Directors may be determined by the Directors or by Ordinary Resolution.
  92. The Directors shall be entitled to be paid their travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

#### **ALTERNATE DIRECTOR OR PROXY**

93. Any Director may in writing appoint another Person to be his alternate and, save to the extent provided otherwise in the form of appointment, such alternate shall have authority to sign written resolutions on behalf of the appointing Director, but shall not be required to sign such written resolutions where they have been signed by the appointing director, and to act in such Director's place at any meeting of the Directors at which the appointing Director is unable to be present. Every such alternate shall be entitled to attend and vote at meetings of the Directors as a Director when the Director appointing him is not personally present and where he is a Director to have a separate vote on behalf of the Director he is representing in addition to his own vote. A Director may at any time in writing revoke the appointment of an alternate appointed by him. Such alternate shall be deemed for all purposes to be a Director of the Company and shall not be deemed to be the agent of the Director appointing him. The remuneration of such alternate shall be payable out of the remuneration of the Director appointing him and the proportion thereof shall be agreed between them.
94. Any Director may appoint any Person, whether or not a Director, to be the proxy of that Director to attend and vote on his behalf, in accordance with instructions given by that Director, or in the absence of such instructions at the discretion of the proxy, at a meeting or meetings of the Directors which that Director is unable to attend personally. The instrument appointing the proxy shall be in writing under the hand of the appointing Director and shall be in any usual or common form or such other form as the Directors may approve, and must be lodged with the chairman of the meeting of the Directors at which such proxy is to be used, or first used, prior to the commencement of the meeting.

#### **POWERS AND DUTIES OF DIRECTORS**

95. Subject to the Companies Law, these Articles and to any resolutions passed in a general meeting, the business of the Company shall be managed by the Directors, who may pay all expenses incurred in setting up and registering the Company and may exercise all powers of the Company. No resolution passed by the Company in general meeting shall invalidate any prior act of the Directors that would have been valid if that resolution had not been passed.
96. Subject to these Articles, the Directors may from time to time appoint any natural person or corporation, whether or not a Director to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, chief executive officer, one or more other executive officers, president, one or more vice presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any natural person or corporation so appointed by the Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall ipso facto terminate if any managing director ceases for any cause to be a Director, or if the Company by Ordinary Resolution resolves that his tenure of office be terminated.

- 
97. The Directors may appoint any natural person or corporation to be a Secretary (and if need be an assistant Secretary or assistant Secretaries) who shall hold office for such term, at such remuneration and upon such conditions and with such powers as they think fit. Any Secretary or assistant Secretary so appointed by the Directors may be removed by the Directors or by the Company by Ordinary Resolution.
  98. The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
  99. The Directors may from time to time and at any time by power of attorney (whether under Seal or under hand) or otherwise appoint any company, firm or Person or body of Persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys or authorised signatory (any such person being an “Attorney” or “Authorised Signatory”, respectively) of the Company for such purposes and with such powers, authorities and discretion (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of Persons dealing with any such Attorney or Authorised Signatory as the Directors may think fit, and may also authorise any such Attorney or Authorised Signatory to delegate all or any of the powers, authorities and discretion vested in him.
  100. The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the three next following Articles shall not limit the general powers conferred by this Article.
  101. The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any natural person or corporation to be a member of such committees or local boards and may appoint any managers or agents of the Company and may fix the remuneration of any such natural person or corporation.
  102. The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any natural person or corporation so appointed and may annul or vary any such delegation, but no Person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
  103. Any such delegates as aforesaid may be authorised by the Directors to sub-delegate all or any of the powers, authorities, and discretion for the time being vested in them.

#### **BORROWING POWERS OF DIRECTORS**

104. The Directors may from time to time at their discretion exercise all the powers of the Company to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

#### **THE SEAL**

105. The Seal shall not be affixed to any instrument except by the authority of a resolution of the Directors provided always that such authority may be given prior to or after the affixing of the Seal and if given after may be in general form confirming a number of affixings of the Seal. The Seal shall be affixed in the presence of a Director or a Secretary (or an assistant Secretary) or in the presence of any one or more Persons as the Directors may appoint for the purpose and every Person as aforesaid shall sign every instrument to which the Seal is so affixed in their presence.

- 
106. The Company may maintain a facsimile of the Seal in such countries or places as the Directors may appoint and such facsimile Seal shall not be affixed to any instrument except by the authority of a resolution of the Directors provided always that such authority may be given prior to or after the affixing of such facsimile Seal and if given after may be in general form confirming a number of affixings of such facsimile Seal. The facsimile Seal shall be affixed in the presence of such Person or Persons as the Directors shall for this purpose appoint and such Person or Persons as aforesaid shall sign every instrument to which the facsimile Seal is so affixed in their presence and such affixing of the facsimile Seal and signing as aforesaid shall have the same meaning and effect as if the Seal had been affixed in the presence of and the instrument signed by a Director or a Secretary (or an assistant Secretary) or in the presence of any one or more Persons as the Directors may appoint for the purpose.
  107. Notwithstanding the foregoing, a Secretary or any assistant Secretary shall have the authority to affix the Seal, or the facsimile Seal, to any instrument for the purposes of attesting authenticity of the matter contained therein but which does not create any obligation binding on the Company.

#### **DISQUALIFICATION OF DIRECTORS**

108. The office of Director shall be vacated, if the Director:
  - (a) becomes bankrupt or makes any arrangement or composition with his creditors;
  - (b) dies or is found to be or becomes of unsound mind;
  - (c) resigns his office by notice in writing to the Company;
  - (d) without special leave of absence from the Board, is absent from meetings of the Board for three consecutive meetings and the Board resolves that his office be vacated; or
  - (e) is removed from office pursuant to any other provision of these Articles.

#### **PROCEEDINGS OF DIRECTORS**

109. The Directors may meet together (either within or outside of the Cayman Islands) for the despatch of business, adjourn, and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. At any meeting of the Directors, each Director present in person or represented by his proxy or alternate shall be entitled to one vote. In case of an equality of votes the chairman of the meeting shall have a second or casting vote. A Director may, and a Secretary or assistant Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors.
110. A Director may participate in any meeting of the Directors, or of any committee appointed by the Directors of which such Director is a member, by means of telephone or similar communication equipment by way of which all Persons participating in such meeting can communicate with each other and such participation shall be deemed to constitute presence in person at the meeting.
111. The quorum necessary for the transaction of the business of the Board may be fixed by the Directors, and unless so fixed, the quorum shall be a majority of Directors then in office. A Director represented by proxy or by an alternate Director at any meeting shall be deemed to be present for the purposes of determining whether or not a quorum is present.
112. A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated. A Director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration.

- 
113. A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established. A Director, notwithstanding his interest, may be counted in the quorum present at any meeting of the Directors whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement.
  114. Any Director may act by himself or through his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as auditor to the Company.
  115. The Directors shall cause minutes to be made for the purpose of recording:
    - (a) all appointments of officers made by the Directors;
    - (b) the names of the Directors present at each meeting of the Directors and of any committee of the Directors; and
    - (c) all resolutions and proceedings at all meetings of the Company, and of the Directors and of committees of Directors.
  116. When the chairman of a meeting of the Directors signs the minutes of such meeting the same shall be deemed to have been duly held notwithstanding that all the Directors have not actually come together or that there may have been a technical defect in the proceedings.
  117. A resolution in writing signed by all the Directors or all the members of a committee of Directors entitled to receive notice of a meeting of Directors or committee of Directors, as the case may be (an alternate Director, subject as provided otherwise in the terms of appointment of the alternate Director, being entitled to sign such a resolution on behalf of his appointer), shall be as valid and effectual as if it had been passed at a duly called and constituted meeting of Directors or committee of Directors, as the case may be. When signed a resolution may consist of several documents each signed by one or more of the Directors or his duly appointed alternate.
  118. The continuing Directors may act notwithstanding any vacancy in their body but if and for so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number, or of summoning a general meeting of the Company, but for no other purpose.
  119. Subject to any regulations imposed on it by the Directors, a committee appointed by the Directors may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within fifteen minutes after the time appointed for holding the meeting, the committee members present may choose one of their number to be chairman of the meeting.
  120. A committee appointed by the Directors may meet and adjourn as it thinks proper. Subject to any regulations imposed on it by the Directors, questions arising at any meeting shall be determined by a majority of votes of the committee members present and in case of an equality of votes the chairman shall have a second or casting vote.
  121. All acts done by any meeting of the Directors or of a committee of Directors, or by any Person acting as a Director, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or Person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such Person had been duly appointed and was qualified to be a Director.

---

## PRESUMPTION OF ASSENT

122. A Director who is present at a meeting of the Board of Directors at which an action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

## DIVIDENDS

123. Subject to any rights and restrictions for the time being attached to any Shares, the Directors may from time to time declare dividends (including interim dividends) and other distributions on Shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefor.
124. Subject to any rights and restrictions for the time being attached to any Shares, the Company by Ordinary Resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.
125. The Directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of the Directors, be applicable for meeting contingencies or for equalising dividends or for any other purpose to which those funds may be properly applied, and pending such application may in the absolute discretion of the Directors, either be employed in the business of the Company or be invested in such investments (other than Shares of the Company) as the Directors may from time to time think fit.
126. Any dividend payable in cash to the holder of Shares may be paid in any manner determined by the Directors. If paid by cheque it will be sent by mail addressed to the holder at his address in the Register, or addressed to such person and at such addresses as the holder may direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company.
127. The Directors may determine that a dividend shall be paid wholly or partly by the distribution of specific assets (which may consist of the shares or securities of any other company) and may settle all questions concerning such distribution. Without limiting the generality of the foregoing, the Directors may fix the value of such specific assets, may determine that cash payment shall be made to some Shareholders in lieu of specific assets and may vest any such specific assets in trustees on such terms as the Directors think fit.
128. Subject to any rights and restrictions for the time being attached to any Shares, all dividends shall be declared and paid according to the amounts paid up on the Shares, but if and for so long as nothing is paid up on any of the Shares dividends may be declared and paid according to the par value of the Shares. No amount paid on a Share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the Share.
129. If several Persons are registered as joint holders of any Share, any of them may give effective receipts for any dividend or other moneys payable on or in respect of the Share.
130. No dividend shall bear interest against the Company.
131. Any dividend unclaimed after a period of six calendar years from the date of declaration of such dividend may be forfeited by the Board of Directors and, if so forfeited, shall revert to the Company.

## ACCOUNTS, AUDIT AND ANNUAL RETURN AND DECLARATION

132. The books of account relating to the Company's affairs shall be kept in such manner as may be determined from time to time by the Directors.

- 
133. The books of account shall be kept at such place or places as the Directors think fit, and shall always be open to the inspection of the Directors.
  134. The Directors may from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Shareholders not being Directors, and no Shareholder (not being a Director) shall have any right to inspect any account or book or document of the Company except as conferred by law or authorised by the Directors or by Ordinary Resolution.
  135. The accounts relating to the Company's affairs shall be audited in such manner and with such financial year end as may be determined from time to time by the Directors or failing any determination as aforesaid shall not be audited.
  136. The Directors may appoint an auditor of the Company who shall hold office until removed from office by a resolution of the Directors and may fix his or their remuneration.
  137. Every auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.
  138. The auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment, and at any time during their term of office, upon request of the Directors or any general meeting of the Members.
  139. The Directors in each calendar year shall prepare, or cause to be prepared, an annual return and declaration setting forth the particulars required by the Companies Law and deliver a copy thereof to the Registrar of Companies in the Cayman Islands.

#### **CAPITALISATION OF RESERVES**

140. Subject to the Companies Law, the Directors may:
  - (a) resolve to capitalise an amount standing to the credit of reserves (including a Share Premium Account, capital redemption reserve and profit and loss account), which is available for distribution;
  - (b) appropriate the sum resolved to be capitalised to the Shareholders in proportion to the nominal amount of Shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:
    - (i) paying up the amounts (if any) for the time being unpaid on Shares held by them respectively, or
    - (ii) paying up in full unissued Shares or debentures of a nominal amount equal to that sum,and allot the Shares or debentures, credited as fully paid, to the Shareholders (or as they may direct) in those proportions, or partly in one way and partly in the other, but the Share Premium Account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up unissued Shares to be allotted to Shareholders credited as fully paid;
  - (c) make any arrangements they think fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where Shares or debentures become distributable in fractions the Directors may deal with the fractions as they think fit;
  - (d) authorise a Person to enter (on behalf of all the Shareholders concerned) into an agreement with the Company providing for either:
    - (i) the allotment to the Shareholders respectively, credited as fully paid, of Shares or debentures to which they may be entitled on the capitalisation, or

- 
- (ii) the payment by the Company on behalf of the Shareholders (by the application of their respective proportions of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing Shares,

and any such agreement made under this authority being effective and binding on all those Shareholders; and

- (e) generally do all acts and things required to give effect to the resolution.

141. Notwithstanding any provisions in these Articles, the Directors may resolve to capitalise an amount standing to the credit of reserves (including the share premium account, capital redemption reserve and profit and loss account) or otherwise available for distribution by applying such sum in paying up in full unissued Shares to be allotted and issued to:

- (a) employees (including Directors) or service providers of the Company or its Affiliates upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or the Members;
- (b) any trustee of any trust or administrator of any share incentive scheme or employee benefit scheme to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or Members; or
- (c) any depository of the Company for the purposes of the issue, allotment and delivery by the depository of ADSs to employees (including Directors) or service providers of the Company or its Affiliates upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or the Members.

#### **SHARE PREMIUM ACCOUNT**

142. The Directors shall in accordance with the Companies Law establish a Share Premium Account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any Share.

143. There shall be debited to any Share Premium Account on the redemption or purchase of a Share the difference between the nominal value of such Share and the redemption or purchase price provided always that at the discretion of the Directors such sum may be paid out of the profits of the Company or, if permitted by the Companies Law, out of capital.

#### **NOTICES**

144. Except as otherwise provided in these Articles, any notice or document may be served by the Company or by the Person entitled to give notice to any Shareholder either personally, or by posting it by airmail or a recognised courier service in a prepaid letter addressed to such Shareholder at his address as appearing in the Register, or by electronic mail to any electronic mail address such Shareholder may have specified in writing for the purpose of such service of notices, or by facsimile to any facsimile number such Shareholder may have specified in writing for the purpose of such service of notices, or by placing it on the Company's Website should the Directors deem it appropriate. In the case of joint holders of a Share, all notices shall be given to that one of the joint holders whose name stands first in the Register in respect of the joint holding, and notice so given shall be sufficient notice to all the joint holders.

145. Notices sent from one country to another shall be sent or forwarded by prepaid airmail or a recognised courier service.

146. Any Shareholder present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was convened.

- 
147. Any notice or other document, if served by:
- (a) post, shall be deemed to have been served five calendar days after the time when the letter containing the same is posted;
  - (b) facsimile, shall be deemed to have been served upon production by the transmitting facsimile machine of a report confirming transmission of the facsimile in full to the facsimile number of the recipient;
  - (c) recognised courier service, shall be deemed to have been served 48 hours after the time when the letter containing the same is delivered to the courier service; or
  - (d) electronic means, shall be deemed to have been served immediately (i) upon the time of the transmission to the electronic mail address supplied by the Shareholder to the Company or (ii) upon the time of its placement on the Company's Website.

In proving service by post or courier service it shall be sufficient to prove that the letter containing the notice or documents was properly addressed and duly posted or delivered to the courier service.

148. Any notice or document delivered or sent by post to or left at the registered address of any Shareholder in accordance with the terms of these Articles shall notwithstanding that such Shareholder be then dead or bankrupt, and whether or not the Company has notice of his death or bankruptcy, be deemed to have been duly served in respect of any Share registered in the name of such Shareholder as sole or joint holder, unless his name shall at the time of the service of the notice or document have been removed from the Register as the holder of the Share, and such service shall for all purposes be deemed a sufficient service of such notice or document on all Persons interested (whether jointly with or as claiming through or under him) in the Share.
149. Notice of every general meeting of the Company shall be given to:
- (a) all Shareholders holding Shares with the right to receive notice and who have supplied to the Company an address for the giving of notices to them; and
  - (b) every Person entitled to a Share in consequence of the death or bankruptcy of a Shareholder, who but for his death or bankruptcy would be entitled to receive notice of the meeting.

No other Person shall be entitled to receive notices of general meetings.

#### **INFORMATION**

150. Subject to the relevant laws, rules and regulations applicable to the Company, no Member shall be entitled to require discovery of any information in respect of any detail of the Company's trading or any information which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board would not be in the interests of the Members of the Company to communicate to the public.
151. Subject to due compliance with the relevant laws, rules and regulations applicable to the Company, the Board shall be entitled to release or disclose any information in its possession, custody or control regarding the Company or its affairs to any of its Members including, without limitation, information contained in the Register and transfer books of the Company.

#### **INDEMNITY**

152. Every Director (including for the purposes of this Article any alternate Director appointed pursuant to the provisions of these Articles), Secretary, assistant Secretary, or other officer for the time being and from time to time of the Company (but not including the Company's auditors) and the personal representatives of the same (each an "Indemnified Person") shall be indemnified and secured harmless against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such Indemnified Person, other than by reason of such Indemnified Person's own dishonesty, wilful default or fraud, in or about the conduct of the Company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Indemnified Person in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.

- 
153. No Indemnified Person shall be liable:
- (a) for the acts, receipts, neglects, defaults or omissions of any other Director or officer or agent of the Company; or
  - (b) for any loss on account of defect of title to any property of the Company; or
  - (c) on account of the insufficiency of any security in or upon which any money of the Company shall be invested; or
  - (d) for any loss incurred through any bank, broker or other similar Person; or
  - (e) for any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgement or oversight on such Indemnified Person's part; or
  - (f) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers, authorities, or discretions of such Indemnified Person's office or in relation thereto;
- unless the same shall happen through such Indemnified Person's own dishonesty, willful default or fraud.

#### **FINANCIAL YEAR**

154. Unless the Directors otherwise prescribe, the financial year of the Company shall end on December 31<sup>st</sup> in each calendar year and shall begin on January 1<sup>st</sup> in each calendar year.

#### **NON-RECOGNITION OF TRUSTS**

155. No Person shall be recognised by the Company as holding any Share upon any trust and the Company shall not, unless required by law, be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any Share or (except only as otherwise provided by these Articles or as the Companies Law requires) any other right in respect of any Share except an absolute right to the entirety thereof in each Shareholder registered in the Register.

#### **WINDING UP**

156. If the Company shall be wound up the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Companies Law, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.
157. If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them. If in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. This Article is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

---

## **AMENDMENT OF ARTICLES OF ASSOCIATION**

158. Subject to the Companies Law, the Company may at any time and from time to time by Special Resolution alter or amend these Articles in whole or in part; provided that Article 88(f) and (h) may not be amended without the prior written consent of the Tencent Investors and the Company may not enter into any transaction (including without limitations any merger, consolidation, amalgamation or other reorganization) the effect of which would be to eliminate the rights of the Tencent Investors pursuant to such Articles.

### **CLOSING OF REGISTER OR FIXING RECORD DATE**

159. For the purpose of determining those Shareholders that are entitled to receive notice of, attend or vote at any meeting of Shareholders or any adjournment thereof, or those Shareholders that are entitled to receive payment of any dividend, or in order to make a determination as to who is a Shareholder for any other purpose, the Directors may provide that the Register shall be closed for transfers for a stated period which shall not exceed in any case thirty calendar days in any calendar year.
160. In lieu of or apart from closing the Register, the Directors may fix in advance a date as the record date for any such determination of those Shareholders that are entitled to receive notice of, attend or vote at a meeting of the Shareholders and for the purpose of determining those Shareholders that are entitled to receive payment of any dividend the Directors may, at or within ninety calendar days prior to the date of declaration of such dividend, fix a subsequent date as the record date for such determination.
161. If the Register is not so closed and no record date is fixed for the determination of those Shareholders entitled to receive notice of, attend or vote at a meeting of Shareholders or those Shareholders that are entitled to receive payment of a dividend, the date on which notice of the meeting is posted or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Shareholders. When a determination of those Shareholders that are entitled to receive notice of, attend or vote at a meeting of Shareholders has been made as provided in this Article, such determination shall apply to any adjournment thereof.

### **REGISTRATION BY WAY OF CONTINUATION**

162. The Company may by Special Resolution resolve to be registered by way of continuation in a jurisdiction outside the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing. In furtherance of a resolution adopted pursuant to this Article, the Directors may cause an application to be made to the Registrar of Companies to deregister the Company in the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing and may cause all such further steps as they consider appropriate to be taken to effect the transfer by way of continuation of the Company.

### **DISCLOSURE**

163. The Directors, or any service providers (including the officers, the Secretary and the Registered Office provider of the Company) specifically authorised by the Directors, shall be entitled to disclose to any regulatory or judicial authority any information regarding the affairs of the Company including without limitation information contained in the Register and books of the Company.

**SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT**

THIS SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT (this “Agreement”) is entered into on May 22, 2017 (the “Effective Date”), by and among

1. Futu Holdings Limited (富途控股有限公司), an exempted limited liability company duly incorporated and validly existing under the Laws of Cayman Islands (the “Company”);
2. Futu Securities International (Hong Kong) Limited (富途证券国际(香港)有限公司), a company incorporated under the Laws of Hong Kong (“Futu Int'l HK”);
3. Futu Securities (Hong Kong) Limited (富途证券(香港)有限公司), a company incorporated under the Laws of Hong Kong (“Futu New HK”);
4. Futu Network Technology Limited (富途网络科技有限公司), a company incorporated under the Laws of Hong Kong (“Futu Network”);
5. Shenzhen Futu Internet Technology Co., Ltd. (深圳市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC (“Futu SZ”);
6. Beijing Futu Internet Technology Co., Ltd. (北京市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC (“Futu BJ”);
7. Futu Internet Technology (Shenzhen) Co., Ltd. (富途网络科技(深圳)有限公司), a company duly incorporated and validly existing under the Laws of the PRC (“Futu Internet SZ”);
8. Shenzhen Shidai Futu Consulting Limited (深圳市时代富途咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC (“Shidai Consulting”);
9. Shenzhen Qianhai Fuzhitu Investment Consulting Limited (深圳市前海富之途投资咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC (“Qianhai Consulting”);
10. Shen Si Internet Technology (Beijing) Co., Ltd. (慎思网络技术(北京)有限公司), a wholly foreign owned enterprise duly incorporated and validly existing under the Laws of the PRC (the “WFOE”);
11. Futu Inc., a corporation incorporated under the laws of the State of Delaware, United States (“Futu US”);
12. Futu NZ Limited, a company incorporated under the laws of New Zealand (“Futu NZ”);

- 
13. Each of the individuals listed on Schedule SCHEDULE I attached hereto (each such individual, a “Principal” and, collectively, the “Principals”);
  14. Qiantang River Investment Limited, a company incorporated under the Laws of the British Virgin Islands (“Qiantang River”);
  15. Image Frame Investment (HK) Limited 意像架構投資(香港)有限公司, a company incorporated under the Laws of Hong Kong (“Image Frame”, and together with Qiantang River, “Tencent”);
  16. Matrix Partners China III Hong Kong Limited, a company incorporated under the Laws of Hong Kong (“Matrix”);
  17. SCC Venture VI Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands (“SCC”); and
  18. Sequoia Capital CV IV Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands (“Sequoia Holdco”, and together with SCC, “Sequoia”).

Each of the parties listed above is referred to herein individually as a “Party” and collectively as the “Parties”. Tencent, Matrix and Sequoia are collectively referred to as the “Investors” and each an “Investor”. Capitalized terms used herein without definition shall have the meanings set forth in the Purchase Agreement (as defined below).

#### **RECITALS**

- A The Company owns 100% of the equity interests in each of Futu New HK, Futu Int’l Hong Kong, Futu Network, Futu US and Futu NZ. Futu New HK holds 100% of the equity interests of the WFOE and Futu Internet SZ. The equity interests in Futu SZ are held by LI Hua (defined in the Purchase Agreement) and the Existing SZ Shareholders (defined below), and the WFOE controls Futu SZ through the Captive Structure (defined below). Futu SZ owns 100% of the equity interests of Futu BJ. Futu Int’l HK owns 100% of the equity interests in Shidai Consulting and Qianhai Consulting.
- B Certain Investors holding Series A Preferred Shares (as defined below), Series A-1 Preferred Shares (as defined below) and Series B Preferred Shares (as defined below) are parties to that certain Shareholders Agreement, dated May 27, 2015 (the “Prior Agreement”).
- C The Group (defined below) is engaged in the business of securities brokerage and related services (the “Business”). The Company seeks expansion capital to grow the Business and, correspondingly, seeks to secure an investment from the Investors, on the terms and conditions set forth herein.
- D Image Frame has agreed to purchase from the Company, and the Company has agreed to issue to Image Frame, Series C Preferred Shares (as defined below) of the Company, and Matrix and SCC have agreed to purchase from the Company, and the Company has agreed to issue to Matrix and SCC, Series C-1 Preferred Shares (as defined below) of the Company, on the terms and conditions set forth in the Share Purchase Agreement dated May 22, 2017 by and among the Company, the Principals, Futu Int’l HK, Futu New HK, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting, the WFOE, Futu US, Futu NZ and the Investors (the “Purchase Agreement”).

- 
- E The Purchase Agreement provides that the execution and delivery of this Agreement shall be a condition precedent to the Closing thereunder.
- F Pursuant to Section 12.11 of the Prior Agreement, the Prior Agreement may be amended by written consent of (i) the Company; (ii) Persons holding at least 75% of the then issued and outstanding Preferred Shares (as defined in the Prior Agreement) (voting together as a single class and on an as-converted basis); and (iii) Persons holding at least a majority of the Ordinary Shares held by the Principals. The Company, the holders of Series A Preferred Shares, the Series A-1 Preferred Shares and Series B Preferred Shares, and the Principals, all of which are parties of this Agreement, meet the constituent requirements under (i)-(iii) of Section 12.11 of the Prior Agreement, respectively, to amend the Prior Agreement.
- G The Parties desire to enter into this Agreement and make the respective representations, warranties, covenants and agreements set forth herein on the terms and conditions set forth herein.

**WITNESSETH**

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties intending to be legally bound hereto hereby agree as follows:

**1. Definitions.**

**1.1** The following terms shall have the meanings ascribed to them below:

“Accounting Standards” means the International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) (which includes standards and interpretations approved by the IASB and International Accounting Principles issued under previous constitutions), together with its pronouncements thereon from time to time, and applied on a consistent basis.

“Affiliate” means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person. In the case of an Investor, the term “Affiliate” also includes (i) any shareholder of such Investor, (ii) any of such shareholder’s or such Investor’s current or retired general partners or limited partners, (iii) the fund manager managing such shareholder or such Investor (and general partners, limited partners, officers, and directors thereof) and other funds managed by such fund manager, (iv) any venture capital fund now or hereafter existing which is Controlled by or under common Control with one or more general partners or shares the same management company with such Person, and (v) trusts Controlled by or for the benefit of any such Person referred to in (i), (ii), (iii), or (iv). Notwithstanding the foregoing, the parties acknowledge and agree that (a) the name “Sequoia Capital” is commonly used to describe a variety of entities (collectively, the “Sequoia Entities”) that are affiliated by ownership or operational relationship and engaged in a broad range of activities related to investing and securities trading and (b) notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not be binding on, or restrict the activities of, any (i) Sequoia Entity outside of the Sequoia China Sector Group or (ii) entity primarily engaged in investment and trading in the secondary securities market. For purposes of the foregoing, the “Sequoia China Sector Group” means all Sequoia Entities (whether currently existing or formed in the future) that are principally focused on companies located in, or with connections to, the PRC.

---

“Applicable Securities Laws” means (i) with respect to any offering of securities in the United States, or any other act or omission within that jurisdiction, the securities laws of the United States, including the Exchange Act and the Securities Act, and any applicable Law of any state of the United States, and (ii) with respect to any offering of securities in any jurisdiction other than the United States, or any related act or omission in that jurisdiction, the applicable Laws of that jurisdiction.

“Applicable Rate” means the average exchange rate calculated based on the average daily exchange rate between any two currencies (as determined by reference to the rates reported by the People’s Bank of China) that prevailed during the five days’ period immediately preceding the date on which reference to the relevant currencies is made.

“Associate” means, with respect to any Person, (i) a corporation or organization (other than the Group Companies) of which such Person is an officer or partner or is, directly or indirectly, the beneficial owner of five percent (5%) or more of any class of Equity Securities of such corporation or organization, (ii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar capacity, or (iii) any relative or spouse of such Person, or any relative of such spouse.

“Board” or “Board of Directors” means the board of directors of the Company.

“Business Day” means any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in the Cayman Islands, the PRC or Hong Kong.

“Captive Structure” means the structure under which the WFOE Controls Futu SZ and Futu BJ through the Control Documents.

“CFC” means a controlled foreign corporation as defined in the Code.

“Charter Documents” means, with respect to any Person, that is a legal entity, the articles of incorporation, certificate of incorporation, formation or registration (including, if applicable, certificates of change of name), memorandum of association, articles of association, bylaws, articles of organization, limited liability company agreement, trust deed, trust instrument, operating agreement, joint venture agreement, business license, or similar or other constitutive, governing, or charter documents, or equivalent documents, of such Person.

---

“Circular 37” means *Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (《国家外汇管理局关于境内居民通过特殊目的公司境外投融资及返程投资外汇管理有关问题的通知》) issued by SAFE on July 4, 2014, including any of its applicable implementing rules or regulations.

“Closing” means the consummation of the sale and issuance of the Series C Preferred Shares and Series C-1 Preferred Shares pursuant to the Purchase Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commission” means (i) with respect to any offering of securities in the United States, the Securities and Exchange Commission of the United States or any other federal agency at the time administering the Securities Act, and (ii) with respect to any offering of securities in a jurisdiction other than the United States, the regulatory body of the jurisdiction with authority to supervise and regulate the offering or sale of securities in that jurisdiction.

“Competitive Business Activity” means (i) engaging in, or managing or directing persons primarily engaged in the business in competition with that of the Business; (ii) acquiring or having an ownership interest in any business primarily engaged in the business in competition with that of the Business; or (iii) participating in the financing, operation, management or control of any firm, partnership, corporation, entity or business primarily engaged in the business in competition with that of the Business. Notwithstanding the foregoing provision, a passive investment in less than two percent (2%) of the issued and outstanding shares of a publicly traded company engaged in the business in competition with the Business shall not be deemed as a Competitive Business Activity.

“Control” of a given Person means the power or authority, whether exercised or not, to direct the business, management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by Contract or otherwise; provided, that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.

“Control Documents” has the meaning set forth in the Purchase Agreement.

“Deemed Liquidation Event” has the meaning given to such term in the Memorandum and Articles.

“Director” means a director serving on the Board.

---

“Equity Securities” means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing, or any Contract providing for the acquisition of any of the foregoing.

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended.

“Existing SZ Shareholders” means the existing shareholders (excluding Li Hua) of Futu SZ as of the date of the execution of this Agreement, consisting of LI Lei (李轶), FENG Lei (冯磊), JIA Yan (贾岩), XIANG Wenbin (香文斌), ZHAO Dan (赵丹), ZHU Daxin (朱达欣), WANG Wenhai (王闻海), LIU Huajing (刘化静) and QIU Yuepeng (邱跃鹏).

“FCPA” means Foreign Corrupt Practices Act of the United States of America, as amended from time to time.

“Form F-3” means Form F-3 promulgated by the Commission under the Securities Act or any successor form or substantially similar form then in effect.

“Form S-3” means Form S-3 promulgated by the Commission under the Securities Act or any successor form or substantially similar form then in effect.

“Governmental Authority” means any government of any nation or any federation, province or state or any other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the PRC, Hong Kong, United States of America, New Zealand or any other country, or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization.

“Governmental Order” means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

“Group Company” means each of the Company, Futu Int’l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting and WFOE, together with each Subsidiary of any of the foregoing, and “Group” or “Group Companies” refers to all of the Group Companies collectively.

“Holders” means the holders of Registrable Securities who are parties to this Agreement from time to time, and their permitted transferees that become parties to this Agreement from time to time.

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China.

---

“Indebtedness” of any Person means, without duplication, each of the following of such Person: (i) all indebtedness for borrowed money, (ii) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business), (iii) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (iv) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced that are incurred in connection with the acquisition of properties, assets or businesses, (v) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (vi) all obligations that are capitalized in accordance with Accounting Standards, (vii) all obligations under banker’s acceptance, letter of credit or similar facilities, (viii) all obligations to purchase, redeem, retire, defease or otherwise acquire for value any Equity Securities of such Person, (ix) all obligations in respect of any interest rate swap, hedge or cap agreement, and (x) all guarantees issued in respect of the Indebtedness referred to in clauses (i) through (ix) above of any other Person, but only to the extent of the Indebtedness guaranteed.

“Initiating Holders” means, with respect to a request duly made under Section 2.1 or Section 2.2 to Register any Registrable Securities, the Holders initiating such request.

“Intellectual Property” means any and all (i) patents, patent rights and applications therefor and reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (ii) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (iii) registered and unregistered copyrights, copyright registrations and applications, mask works and registrations and applications therefor, author’s rights and works of authorship (including artwork, software, computer programs, source code, object code and executable code, firmware, development tools, files, records and data, and related documentation), (iv) URLs, web sites, web pages and any part thereof, (v) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications, proprietary data, customer lists, databases, proprietary processes, technology, formulae, and algorithms and other intellectual property, (vi) trade names, trade dress, trademarks, domain names, service marks, logos, business names, and registrations and applications therefor, and (vii) the goodwill symbolized or represented by the foregoing.

“IPO” means the first firm underwritten registered public offering by the Company of its Ordinary Shares pursuant to a Registration Statement that is filed with and declared effective by either the Commission under the Securities Act or another Governmental Authority for a public offering in a jurisdiction other than the United States.

“Key Employees” has the meaning set forth in the Purchase Agreement.

---

“Law” or “Laws” means any and all provisions of any applicable constitution, treaty, statute, law, regulation, ordinance, code, rule, or rule of common law, any governmental approval, concession, grant, franchise, license, agreement, directive, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, in each case as amended, and any and all applicable Governmental Orders.

“Liabilities” means, with respect to any Person, all liabilities, obligations and commitments of such Person of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due.

“Lien” means any claim, charge, easement, encumbrance, lease, covenant, security interest, lien, option, pledge, rights of others, or restriction (whether on voting, sale, transfer, disposition or otherwise), whether imposed by Contract, understanding, law, equity or otherwise.

“Majority Preferred Holders” means the holders of more than 50% of the voting power of the issued and outstanding Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis).

“Memorandum and Articles” means the Memorandum of Association of the Company and the Articles of Association of the Company, as each may be amended and/or restated from time to time.

“Ordinary Share Equivalents” means any Equity Security which is by its terms convertible into or exchangeable or exercisable for Ordinary Shares or other share capital of the Company, including without limitation, the Preferred Shares.

“Ordinary Shares” means the Company’s ordinary shares, par value US\$0.00001 per share.

“Person” means any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity.

“PFIC” means passive foreign investment company as defined in the Code.

“PRC” means the People’s Republic of China, but solely for the purposes of this Agreement, excluding Hong Kong, the Macau Special Administrative Region and the islands of Taiwan.

“Preferred Holder” means any holder of the issued and outstanding Preferred Shares.

“Preferred Shares” means the Series A Preferred Shares, the Series A-1 Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares and the Series C-1 Preferred Shares.

“Public Official” means any executive, officer, official, or employee of a Governmental Authority, political party or member of a political party, political candidate; executive, employee or officer of a public international organization; or director, officer or employee or agent of a wholly owned or partially state-owned or controlled enterprise, including a PRC state-owned or controlled enterprise.

---

“Qualified IPO” has the meaning given to such term in the Memorandum and Articles.

“Registrable Securities” means (i) the Ordinary Shares issued or issuable upon conversion of the Preferred Shares, (ii) any Ordinary Shares of the Company issued or issuable as a dividend or other distribution with respect to, in exchange for, or in replacement of, the shares referenced in (i) herein, and (iii) any Ordinary Shares owned or hereafter acquired by the Preferred Holders; excluding in all cases, however, any of the foregoing sold by a Person in a transaction other than an assignment pursuant to Section 12.3. For purposes of this Agreement, Registrable Securities shall cease to be Registrable Securities when such Registrable Securities have been disposed of pursuant to an effective Registration Statement.

“Registration” means a registration effected by preparing and filing a Registration Statement and the declaration or ordering of the effectiveness of that Registration Statement; and the terms “Register” and “Registered” have meanings concomitant with the foregoing.

“Registration Statement” means a registration statement prepared on Form F-1, F-3, S-1, or S-3 under the Securities Act, or on any comparable form in connection with registration in a jurisdiction other than the United States.

“Related Party” means any Affiliate, officer, director, supervisory board member, employee, or holder of any Equity Security of any Group Company, and any Affiliate or Associate of any of the foregoing.

“SAFE” means the State Administration of Foreign Exchange of the PRC.

“SAFE Rules and Regulations” means collectively, the Circular 37 and any other applicable SAFE rules and regulations.

“Securities Act” means the United States Securities Act of 1933, as amended.

“Series A Preferred Shares” means the Series A Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series A-1 Preferred Shares” means the Series A-1 Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series B Preferred Shares” means the Series B Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series C Preferred Shares” means the Series C Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

---

“Series C-1 Preferred Shares” means the Series C-1 Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Shareholder” means a holder of any Shares.

“Shares” means the Ordinary Shares and the Preferred Shares.

“Subsidiary” means, with respect to any given Person, any other Person that is Controlled directly or indirectly by such given Person. With respect to the Company, its Subsidiaries shall include Futu Int’l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting and the WFOE.

“Transaction Documents” has the meaning set forth in the Purchase Agreement.

“U.K. Bribery Act” means the United Kingdom Bribery Act of 2010 which came into effect on July 1, 2011.

“US” means the United States of America.

“United States Person” means United States person as defined in Section 7701(a)(30) of the Code.

**1.2 Other Defined Terms.** The following terms shall have the meanings defined for such terms in the Sections set forth below:

Additional Number	Section 7.4(b)
Agreement	Preamble
Business	Recitals
Chairman	Section 9.1(b)
Company	Preamble
Deferral Period	Section 2.3(b)
Direct US Investor	Section 11.10(c)
Dispute	Section 12.5
Effective Date	Preamble
ESOP	Section 7.3(a)
Exempt Registrations	Section 3.4
First Participation Notice	Section 7.4(a)
Futu BJ	Preamble
Futu Int'l HK	Preamble
Futu Internet SZ	Preamble
Futu Network	Preamble
Futu New HK	Preamble
Futu NZ	Preamble
Futu SZ	Preamble
Futu US	Preamble
Image Frame	Preamble
Indirect US Investor	Section 11.10(c)
Information	Section 11.14
Investor	Preamble
Investor Party	Section 11.14
Matrix	Preamble
New Securities	Section 7.3
Observer	Section 9.1(c)
Ordinary Director	Section 9.1
Oversubscription Participants	Section 7.4(b)
Party	Preamble
PFIC Shareholder	Section 11.10(c)
Preemptive Right	Section 7.1
Principal	Preamble
Prior Agreement	Recitals
Pro Rata Share	Section 7.2
Purchase Agreement	Recitals
Qianhai Consulting	Preamble
Qiantang River	Preamble
Restricted Period	Section 11.13
Rights Holder	Section 7.1
SCC	Preamble
Second Participation Notice	Section 7.4(b)
Second Participation Period	Section 7.4(b)
Security Holder	Section 11.2
Sequoia Holdco	Preamble
Shidai Consulting	Preamble
Tencent	Preamble
Tencent Director	Section 9.1(a)
Violation	Section 5.1(a)
WFOE	Preamble

---

**1.3 Interpretation.** For all purposes of this Agreement, except as otherwise expressly herein provided, (i) the terms defined in this Section 1 shall have the meanings assigned to them in this Section 1 and include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein have the meanings assigned under the Accounting Standards, (iii) all references in this Agreement to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of the body of this Agreement, (iv) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms, (v) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision, (vi) all references in this Agreement to designated Schedules, Exhibits and Appendices are to the Schedules, Exhibits and Appendices attached to this Agreement, (vii) references to this Agreement, any other Transaction Documents and any other document shall be construed as references to such document as the same may be amended, supplemented or novated from time to time, (viii) the term “or” is not exclusive, (ix) the term “including” will be deemed to be followed by “, but not limited to,” (x) the terms “shall,” “will,” and “agrees” are mandatory, and the term “may” is permissive, (xi) the phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning, (xii) the term “voting power” refers to the number of votes attributable to the Shares (on an as-converted basis) in accordance with the terms of the Memorandum and Articles, (xiii) the headings used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement, (xiv) references to laws include any such law modifying, re-enacting, extending or made pursuant to the same or which is modified, re-enacted, or extended by the same or pursuant to which the same is made, (xv) all references to dollars or to “US\$” are to currency of the United States of America and all references to RMB are to currency of the PRC (and each shall be deemed to include reference to the equivalent amount in other currencies calculated in accordance with the Applicable Rate), (xvi) references to “Qiantang River” and “Image Frame” shall include any of their respective assignees, and (xvii) references to “Tencent” shall mean collectively Qiantang River and Image Frame (and any of their respective assignees), and for the purpose of calculating any voting rights or shareholding of Tencent, such voting rights or shareholding shall be a reference to the voting rights or shareholding of Qiantang River and Image Frame (and any of their respective assignees) taken in aggregate.

---

## 2. Demand Registration.

**2.1 Registration Other Than on Form F-3 or Form S-3.** Subject to the terms of this Agreement, at any time or from time to time after the earlier of (i) May 27, 2023, and (ii) the date that is six (6) months after the closing of the IPO, the Holders holding ten percent (10%) or more of the voting power of the then outstanding Registrable Securities held by all the Holders may request in writing that the Company effect a Registration of the Registrable Securities. Upon receipt of such a request, the Company shall (i) promptly give written notice of the proposed Registration to all the other Holders, and (ii) as soon as practicable, use its best efforts to cause the Registrable Securities specified in the request, together with any Registrable Securities of any Holder who requests in writing to join such Registration within fifteen (15) Business Days after the Company's delivery of written notice, to be Registered and/or qualified for sale and distribution in such jurisdiction as the Initiating Holders may request. The Company shall be obligated to effect no more than three (3) Registrations pursuant to this [Section 2.1](#) that have been declared and ordered effective; provided that if the sale of all of the Registrable Securities sought to be included pursuant to this [Section 2.1](#) is not consummated, such Registration shall not be deemed to constitute one of the Registration rights granted pursuant to this [Section 2.1](#).

**2.2 Registration on Form F-3 or Form S-3.** The Company shall use its best efforts to qualify for Registration on Form F-3 or Form S-3. Subject to the terms of this Agreement, if the Company qualifies for Registration on Form F-3 or Form S-3 (or any comparable form for Registration in a jurisdiction other than the United States), the Holders holding ten percent (10%) or more of the voting power of the then outstanding Registrable Securities held by all the Holders may request the Company to file, in any jurisdiction in which the Company has had a Registered underwritten public offering, a Registration Statement on Form F-3 or Form S-3 (or any comparable form for Registration in a jurisdiction other than the United States), including without limitation any Registration Statement filed under the Securities Act providing for the Registration of, and the sale on a continuous or a delayed basis by the Holders of, all of the Registrable Securities pursuant to Rule 415 under the Securities Act and/or any similar rule that may be adopted by the Commission. Upon receipt of such a request, the Company shall (i) promptly give written notice of the proposed Registration to all the other Holders and (ii) as soon as practicable, use its best efforts to cause the Registrable Securities specified in the request, together with any Registrable Securities of any Holder who requests in writing to join such Registration within fifteen (15) Business Days after the Company's delivery of written notice, to be Registered and qualified for sale and distribution in such jurisdiction.

---

### 2.3 Right of Deferral.

(a) The Company shall not be obligated to Register or qualify Registrable Securities pursuant to this Section 2:

(i) if, within ten (10) Business Days of the receipt of any request of the Holders to Register any Registrable Securities under Section 2.1 or Section 2.2, the Company gives notice to the Initiating Holders of its bona fide intention to effect the filing for its own account of a Registration Statement of Ordinary Shares within sixty (60) days upon receipt of that request; provided, that the Company is actively employing in good faith its best efforts to cause that Registration Statement to become effective within sixty (60) days upon receipt of that request; provided, further, that the Holders are entitled to join such Registration in accordance with Section 3 (other than an Exempt Registration);

(ii) during the period starting with the date of filing by the Company of, and ending six (6) months following the effective date of any Registration Statement pertaining to the Ordinary Shares of the Company other than an Exempt Registration; provided, that the Holders are entitled to join such Registration in accordance with Section 3; or

(iii) in any jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such Registration or qualification, unless the Company is already subject to service of process in such jurisdiction.

(b) If, after receiving a request from the Holders pursuant to Section 2.1 or Section 2.2 hereof, the Company furnishes to the Holders a certificate signed by the chief executive officer of the Company stating that, in the good faith judgment of the Board, it would be materially detrimental to the Company or its members for a Registration Statement to be filed in the near future, then the Company shall have the right to defer such filing for a period (the "Deferral Period") during which such filing would be materially detrimental, provided, that the Company may not utilize this right for more than ninety (90) days on any one occasion or more than once during any twelve (12)-month period; provided, further, that the Company may not Register any other Equity Securities during the Deferral Period.

---

**2.4 Underwritten Offerings.** If, in connection with a request to Register the Registrable Securities under Section 2.1 or Section 2.2, the Initiating Holders seek to distribute such Registrable Securities in an underwritten offering, they shall so advise the Company as a part of the request, and the Company shall include such information in the written notice to the other Holders described in Section 2.1 and Section 2.2. In such event, the right of any Holder to include its Registrable Securities in such Registration shall be conditioned upon such Holder's participation in such underwritten offering and the inclusion of such Holder's Registrable Securities in the underwritten offering (unless otherwise mutually agreed by the Initiating Holders and such Holder) to the extent provided herein. All the Holders proposing to distribute their Registrable Securities through such underwritten offering shall enter into an underwriting agreement in customary form with the underwriter or underwriters of internationally recognized standing selected for such underwritten offering by the Company and reasonably acceptable to the Holders of at least a majority of the voting power of all the Registrable Securities proposed to be included in such Registration. Notwithstanding any other provision of this Agreement, if the managing underwriters advise the Company that marketing factors (including without limitation the aggregate number of the Registrable Securities requested to be Registered, the general condition of the market, and the status of the Persons proposing to sell securities pursuant to the Registration) require a limitation of the number of the Registrable Securities to be underwritten in a Registration pursuant to Section 2.1 or Section 2.2, the number of shares that may be included in the Registration and the underwriting shall be allocated, first, to each of the Holders requesting inclusion of their Registrable Securities in such Registration Statement on a pro rata basis based on the total number of the Registrable Securities then held by each such Holder, and second, to holders of other Equity Securities of the Company; provided, however, that the right of the underwriter(s) to exclude shares (including the Registrable Securities) from the Registration and underwriting as described above shall be restricted so that (i) the number of the Registrable Securities included in any such registration is not reduced below thirty percent (30%) of the aggregate number of the Registrable Securities, on a pro rata basis, for which inclusion has been requested; (ii) all the shares that are not the Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company (or any Subsidiary of the Company) shall first be excluded from such Registration and underwriting before any Registrable Securities are so excluded; and (iii) in any case at least 30% of the Registrable Securities requested to be Registered by the Preferred Holder will not be subject to such cutback. If any Holder disapproves the terms of any underwriting, the Holder may also elect to withdraw therefrom by written notice to the Company and the underwriters delivered at least ten (10) Business Days prior to the effective date of the Registration Statement. Any Registrable Securities excluded or withdrawn from such underwritten offering shall be withdrawn from the Registration. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to a Holder to the nearest one hundred (100) shares.

---

### 3. Piggyback Registrations.

**3.1 Registration of the Company's Securities.** Subject to the terms of this Agreement, if the Company proposes to Register for its own account any of its Equity Securities, or for the account of any holder (other than a Holder) and any of such holder's Equity Securities, in connection with the public offering of such securities (except for Exempt Registrations), the Company shall promptly give each Holder written notice of such Registration and, upon the written request of any Holder given within fifteen (15) Business Days after delivery of such notice, the Company shall use its best efforts to include in such Registration any Registrable Securities thereby requested to be Registered by such Holder. If a Holder decides not to include all or any of its Registrable Securities in such Registration by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent Registration Statement or Registration Statements as may be filed by the Company, all upon the terms and conditions set forth herein.

**3.2 Right to Terminate Registration.** The Company shall have the right to terminate or withdraw any Registration initiated by it under Section 3.1 prior to the effectiveness of such Registration, whether or not any Holder has elected to participate therein. The expenses of such withdrawn Registration shall be borne by the Company in accordance with Section 4.3.

### 3.3 Underwriting Requirements.

(a) In connection with any offering involving an underwriting of the Company's Equity Securities, the Company shall not be required to Register the Registrable Securities of a Holder under this Section 3 unless such Holder's Registrable Securities are included in the underwritten offering and such Holder enters into an underwriting agreement in customary form with the underwriter or underwriters of internationally recognized standing selected by the Company and setting forth such terms for the underwritten offering as have been agreed upon between the Company and the underwriters. In the event the managing underwriters advise the Holders seeking Registration of the Registrable Securities pursuant to this Section 3 in writing that market factors (including the aggregate number of the Registrable Securities requested to be Registered, the general condition of the market, and the status of the Persons proposing to sell securities pursuant to the Registration) require a limitation of the number of the Registrable Securities to be underwritten, the number of shares that may be included in the Registration and the underwriting shall be allocated, first, to the Company, second, to each of the Holders requesting inclusion of their Registrable Securities in such Registration Statement on a pro rata basis based on the total number of the Registrable Securities then held by each such Holder, and third, to holders of other Equity Securities of the Company; provided, however, that the right of the underwriter(s) to exclude shares (including the Registrable Securities) from the Registration and underwriting as described above shall be restricted so that (i) the number of the Registrable Securities included in any such registration is not reduced below thirty percent (30%) of the aggregate number of the Registrable Securities, on a pro rata basis, for which inclusion has been requested; (ii) all the shares that are not the Registrable Securities and are held by any other Person, including, without limitation, any Person who is an employee, officer or director of the Company (or any Subsidiary of the Company) shall first be excluded from such Registration and underwriting before any Registrable Securities are so excluded; and (iii) in any case at least 30% of the Registrable Securities requested to be Registered by the Preferred Holder will not be subject to such cutback. If any Holder disapproves the terms of any underwriting, the Holder may elect to withdraw therefrom by written notice to the Company and the underwriters delivered at least ten (10) Business Days prior to the effective date of the Registration Statement. Any Registrable Securities excluded or withdrawn from the underwritten offering shall be withdrawn from the Registration. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to a Holder to the nearest one hundred (100) shares.

---

(b) If any Holder disapproves the terms of any underwriting, the Holder may elect to withdraw therefrom by written notice to the Company and the underwriters delivered at least ten (10) Business Days prior to the effective date of the Registration Statement. Any Registrable Securities excluded or withdrawn from the underwritten offering shall be withdrawn from the Registration.

**3.4 Exempt Registrations.** The Company shall have no obligation to Register any Registrable Securities under this Section 3 in connection with a Registration by the Company (i) relating solely to the sale of securities to participants in a Company share option plan, (ii) relating to a corporate reorganization or other transaction under Rule 145 of the Securities Act (or comparable provision under the Laws of another jurisdiction, as applicable), or (iii) on any form that does not include substantially the same information as would be required to be included in a Registration Statement covering the sale of the Registrable Securities and does not permit secondary sales (collectively, "Exempt Registrations").

#### **4. Registration Procedures.**

**4.1 Registration Procedures and Obligations.** Whenever required under this Agreement to effect the Registration of any Registrable Securities held by the Holders, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the Commission a Registration Statement with respect to those Registrable Securities and use its best efforts to cause that Registration Statement to become effective, and, upon the request of the Holders holding at least a majority of the voting power of the Registrable Securities Registered thereunder, keep the Registration Statement effective for a period ending on the earlier of the date which is one hundred and eighty (180) days from the effective date of the Registration Statement or until the distribution thereunder has been completed;

(b) Prepare and file with the Commission amendments and supplements to that Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to comply with the provisions of Applicable Securities Laws with respect to the disposition of all securities covered by the Registration Statement;

(c) Furnish to the Holders the number of copies of a prospectus, including a preliminary prospectus, required by Applicable Securities Laws, and any other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) Use its best efforts to Register and qualify the securities covered by the Registration Statement under the securities Laws of any jurisdiction, as reasonably requested by the Holders, provided, that the Company shall not be required to qualify to do business or file a general consent to service of process in any such jurisdictions;

---

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in customary form, with the underwriter(s) of the offering;

(f) Promptly notify each Holder of the Registrable Securities covered by the Registration Statement at any time when a prospectus relating thereto is required to be delivered under Applicable Securities Laws of (A) the issuance of any stop order by the Commission, or (B) the happening of any event or the existence of any condition as a result of which any prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, or if in the opinion of counsel for the Company it is necessary to supplement or amend such prospectus to comply with applicable Law, and at the request of any such Holder promptly prepare and furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made or such prospectus, as supplemented or amended, shall comply with Law;

(g) Furnish, at the request of any Holder requesting Registration of Registrable Securities pursuant to this Agreement, on the date that such Registrable Securities are delivered for sale in connection with a Registration pursuant to this Agreement, (A) an opinion, dated the date of the sale, of the counsel representing the Company for the purposes of the Registration, in form and substance as is customarily given to underwriters in an underwritten public offering; and (B) comfort letters dated as of (x) the effective date of the registration statement covering such Registrable Securities, and (y) the date of the sale as contemplated in Rule 159 under the Securities Act, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(h) Otherwise comply with all applicable rules and regulations of the Commission to the extent applicable to the applicable registration statement and use its best efforts to make generally available to its securities holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than forty-five (45) days after the end of a twelve (12) month period (or ninety (90) days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of such registration statement, which statement shall cover such twelve (12) month period, subject to any proper and necessary extensions;

(i) Not, without the written consent of the Holders of at least a majority of the voting power of the then outstanding Registrable Securities, make any offer relating to the securities that would constitute a "free writing prospectus," as defined in Rule 405 promulgated under the Act;

---

(j) Provide a transfer agent and registrar for all Registrable Securities Registered pursuant to the Registration Statement and, where applicable, a number assigned by the Committee on Uniform Securities Identification Procedures for all those Registrable Securities, in each case not later than the effective date of the Registration; and

(k) Take all reasonable action necessary to list the Registrable Securities on the primary exchange on which the Company's securities are then traded or, in connection with a Qualified IPO, the primary exchange on which the Company's securities will be traded.

**4.2 Information from Holder.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the Registration of such Holder's Registrable Securities.

**4.3 Expenses of Registration.** All expenses, other than the underwriting discounts and selling commissions applicable to the sale of any Registrable Securities pursuant to this Agreement (which shall be borne by the Holders requesting Registration on a pro rata basis in proportion to their respective numbers of Registrable Securities sold in such Registration), incurred in connection with Registrations, filings or qualifications pursuant to this Agreement, including (without limitation) all Registration, filing and qualification fees, printers' and accounting fees, fees charges by depository banks, transfer agents, and share registrars, fees and disbursements of counsel for the Company and reasonable fees and disbursement of one counsel for all the selling Holders, shall be borne by the Company. The Company shall not, however, be required to pay for any expenses of any Registration proceeding begun pursuant to Section 2.1 or Section 2.2 of this Agreement if the Registration request is subsequently withdrawn at the request of the Holders holding at least a majority of the voting power of the Registrable Securities requested to be Registered by all the Holder in such Registration (in which case all the participating Holders shall bear such expenses pro rata based upon the number of the Registrable Securities that were to be thereby Registered in the withdrawn Registration) unless the Holders of at least a majority of the voting power of the Registrable Securities then outstanding agree that such Registration constitutes the use by the Holders of one (1) demand Registration pursuant to Section 2.1 (in which case such Registration shall also constitute the use by all the Holders of Registrable Securities of one (1) such demand Registration); provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and the Company shall pay any and all such expenses; and further, such Registration shall not constitute the use of one (1) demand Registration pursuant to Section 2.1.

---

## 5. Registration-Related Indemnification.

### 5.1 Company Indemnity.

(a) To the maximum extent permitted by Law, the Company will indemnify and hold harmless each Holder, such Holder's partners, officers, directors, shareholders, members, and legal counsel, any underwriter (as defined in the Securities Act) and each Person, if any, who controls (as defined in the Securities Act) such Holder or underwriter, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under Laws which are applicable to the Company and relate to action or inaction required of the Company in connection with any Registration, qualification, or compliance, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (each a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such Registration Statement, on the effective date thereof (including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto), (ii) the omission or alleged omission to state in the Registration Statement, on the effective date thereof (including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto), a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of Applicable Securities Laws, or any rule or regulation promulgated under Applicable Securities Laws. The Company will reimburse, as incurred, each such Holder, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action.

(b) The indemnity agreement contained in this [Section 5.1](#) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld, conditional, or delayed), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises solely out of or is solely based upon a Violation that occurs in reliance upon and in conformity with written information furnished for use in connection with such Registration by any such Holder, such Holder's partners, officers, directors, and legal counsel, any underwriter (as defined in the Securities Act) and each Person, if any, who controls (as defined in the Securities Act) such Holder or underwriter.

### 5.2 Holder Indemnity.

(a) To the maximum extent permitted by Law, each selling Holder that has included any Registrable Securities in a Registration will, severally and not jointly, indemnify and hold harmless the Company, its directors and officers, any other Holder selling securities in connection with such Registration and each Person, if any, who controls (as defined in the Securities Act) the Company, such underwriter or other Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under Applicable Securities Laws, or any rule or regulation promulgated under Applicable Securities Laws, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs solely in reliance upon and in conformity with written information furnished by such Holder for use in connection with such Registration; and each such Holder will reimburse, as incurred, any Person intended to be indemnified pursuant to this [Section 5.2](#), for any legal or other expenses reasonably incurred by such Person in connection with investigating or defending any such loss, claim, damage, liability or action. None of the Holder's liabilities under this [Section 5.2](#) (when combined with any amounts paid by such Holder pursuant to [Section 5.4](#)) shall exceed the net proceeds received by such Holder from the offering of securities made in connection with that Registration.

---

(b) The indemnity contained in this Section 5.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld, conditional, or delayed).

**5.3 Notice of Indemnification Claim.** Promptly after receipt by an indemnified party under Section 5.1 or Section 5.2 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under Section 5.1 or Section 5.2, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the indemnifying parties. An indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the reasonably incurred fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party, to the extent so prejudiced, of any liability to the indemnified party under this Section 5, but the omission to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 5. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or the plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

**5.4 Contribution.** If any indemnification provided for in Section 5.1 or Section 5.2 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and of the indemnified party, on the other, in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (i) no Holder will be required to contribute any amount (after combined with any amounts paid by such Holder pursuant to Section 5.2) in excess of the net proceeds to such Holder from the sale of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (ii) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

---

**5.5 Underwriting Agreement.** To the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall prevail.

**5.6 Survival.** The obligations of the Company and the Holders under this Section 5 shall survive the completion of any offering of Registrable Securities in a Registration Statement under this Agreement, regardless of the expiration of any statutes of limitation or extensions of such statutes.

**6. Additional Registration-Related Undertakings.**

**6.1 Reports under the Exchange Act.** With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act and any comparable provision of any Applicable Securities Laws that may at any time permit a Holder to sell securities of the Company to the public without Registration or pursuant to a Registration on Form F-3 or Form S-3 (or any comparable form in a jurisdiction other than the United States), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 (or comparable provision, if any, under Applicable Securities Laws in any jurisdiction where the Company's securities are listed), at all times following 90 days after the effective date of the first Registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under all Applicable Securities Laws; and

(c) at any time following ninety (90) days after the effective date of the first Registration under the Securities Act filed by the Company for an offering of its securities to the general public by the Company, promptly furnish to any Holder holding Registrable Securities, upon request (i) a written statement by the Company that it has complied with the reporting requirements of all Applicable Securities Laws at any time after it has become subject to such reporting requirements or, at any time after so qualified, that it qualifies as a registrant whose securities may be resold pursuant to Form F-3 or Form S-3 (or any form comparable thereto under Applicable Securities Laws of any jurisdiction where the Company's securities are listed), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents as filed by the Company with the Commission, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the Commission, that permits the selling of any such securities without Registration or pursuant to Form F-3 or Form S-3 (or any form comparable thereto under Applicable Securities Laws of any jurisdiction where the Company's Securities are listed).

---

**6.2 Limitations on Subsequent Registration Rights.** From and after the date of this Agreement, the Company shall not, without the written consent of the holders of a majority of the Registrable Securities issued or issuable upon conversion of the Series A Preferred Shares, the Series A-1 Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares and the Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis), enter into any agreement with any holder or prospective holder of any Equity Securities of the Company that would allow such holder or prospective holder (i) to include such Equity Securities in any Registration filed under Section 2 or Section 3, unless under the terms of such agreement such holder or prospective holder may include such Equity Securities in any such Registration only to the extent that the inclusion of such Equity Securities will not reduce the amount of the Registrable Securities of the Holders that are included, (ii) to demand Registration of their Equity Securities, or (iii) cause the Company to include such Equity Securities in any Registration filed under Section 2 or Section 3 hereof on a basis *pari passu* with or more favorable to such holder or prospective holder than is provided to the Holders of Registrable Securities.

**6.3 “Market Stand-Off” Agreement.** If so required by the underwriter(s), each holder of the Registrable Securities agrees to enter into an agreement in reasonable and customary form agreeing that the holder of the Registrable Securities, will not sell, transfer or otherwise dispose of any Equity Securities of the Company (other than those included in the offering) without the prior written consent of the Company or such underwriter(s) during the period commencing on the date of the final prospectus relating to the Company’s IPO and ending on the date specified by the Company and the underwriter(s) (such period not to exceed one hundred eighty (180) days from the date of such final prospectus, or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports; and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto); provided, that (i) the foregoing provisions of this Section shall not apply to the sale of any securities of the Company to an underwriter pursuant to any underwriting agreement, and shall not be applicable to any Holder unless all directors, officers and all the other holders of at least one percent (1%) of the issued and outstanding share capital of the Company (calculated on an as-converted to Ordinary Share basis) must be bound by restrictions at least as restrictive as those applicable to any such Holder pursuant to this Section, (ii) this Section shall not apply to a Holder to the extent that any other Person subject to substantially similar restrictions is released in whole or in part, and (iii) the lockup agreements shall permit a Holder to transfer their Registrable Securities to their respective Affiliates so long as the transferees enter into the same lockup agreement. Each Investor, severally but not jointly, agrees to execute and deliver to the underwriters a lock-up agreement containing reasonable and customary terms and qualifications substantially similar as those contained herein, provided that such lockup agreement shall terminate no later than ninety (90) days after the execution of such lockup agreement if the consummation of the IPO has not occurred.

---

**6.4 Termination of Registration Rights.** The registration rights set forth in Section 2 and Section 3 of this Agreement shall terminate on the earlier of (i) the date that is five (5) years from the date of closing of a Qualified IPO, (ii) with respect to any Holder, the date on which such Holder may sell all of such Holder's Registrable Securities under Rule 144 of the Securities Act in any ninety (90)-day period.

**6.5 Exercise of Ordinary Share Equivalents.** Notwithstanding anything to the contrary provided in this Agreement, the Company shall have no obligation to Register Registrable Securities which, if constituting Ordinary Share Equivalents, have not been exercised, converted or exchanged, as applicable, for Ordinary Shares as of the effective date of the applicable Registration Statement, but the Company shall cooperate and facilitate any such exercise, conversion or exchange as requested by the applicable Holder.

**6.6 Further Assurance.** After the launch of the Company's IPO, the Company shall take all necessary actions to minimize the lock-up period of the Investors to the maximum permitted under applicable Law.

**6.7 Intent.** The terms of Section 2 through 6 are drafted primarily in contemplation of an offering of securities in the United States of America. The Parties recognize, however, the possibility that securities may be qualified or Registered for offering to the public in a jurisdiction other than the United States of America where Registration rights have significance or that the Company might effect an offering in the United States of America in the form of American Depositary Receipts or American Depositary Shares. Accordingly:

(a) it is their intention that, whenever this Agreement refers to a Law, form, process or institution of the United States of America but the parties wish to effectuate qualification or registration in a different jurisdiction where Registration rights have significance, reference in this Agreement to the Laws or institutions of the United States shall be read as referring, mutatis mutandis, to the comparable Laws or institutions of the jurisdiction in question; and

(b) it is agreed that the Company will not undertake any listing of American Depositary Receipts, American Depositary Shares or any other security derivative of the Ordinary Shares unless arrangements have been made reasonably satisfactory to the Majority Preferred Holders to ensure that the spirit and intent of this Agreement will be realized and that the Company is committed to take such actions as are necessary such that the Holders will enjoy rights corresponding to the rights hereunder to sell their Registrable Securities in a public offering in the United States of America as if the Company had listed Ordinary Shares in lieu of such derivative securities.

---

## 7. Preemptive Right.

**7.1 General.** The Company hereby grants to Preferred Holder (“Rights Holder”) the preemptive right to subscribe for such Rights Holder’s Pro Rata Share (as defined below) (and any oversubscription, as provided below), of all (or any part) of any New Securities (as defined below) that the Company may from time to time issue after the date of this Agreement (the “Preemptive Right”).

**7.2 Pro Rata Share.** A Rights Holder’s “Pro Rata Share” for purposes of the Preemptive Rights is the ratio of (i) the number of Ordinary Shares (including Preferred Shares on an as-converted basis and assuming full conversion and exercise of all options and other then issued and outstanding convertible and exercisable securities) held by such Rights Holder, to (ii) the total number of Ordinary Shares (including Preferred Shares on an as-converted basis and assuming full conversion and exercise of all options and other outstanding convertible and exercisable securities), then issued and outstanding immediately prior to the issuance of New Securities giving rise to the Preemptive Rights.

**7.3 New Securities.** For purposes hereof, “New Securities” shall mean any Equity Securities of the Company issued after the date hereof, except for:

(a) up to 135,032,132 Ordinary Shares (as adjusted in connection with share splits or share consolidation, reclassification or other similar event) and/or options or warrants therefor issued to employees, officers, directors, contractors, advisors or consultants of the Group Companies reserved for the Company’s employee share option plan to be adopted by the Company (“ESOP”);

(b) any Equity Securities of the Company issued in connection with any share split, share dividend, reclassification or other similar event duly approved by the Board (which approval includes the consent of the Tencent Director);

(c) any Ordinary Shares issued or issuable upon the conversion of the Preferred Shares;

(d) any Equity Securities of the Company issued pursuant to a Qualified IPO;

(e) any Equity Securities of the Company issued as dividend or distribution solely on the Preferred Shares in accordance with the Memorandum and Articles, or in connection with a subdivision, combination, reclassification or similar event of the Preferred Shares; and

(f) any other Equity Securities of the Company which the Majority Preferred Holders shall have agreed in writing shall not be deemed “New Securities”.

---

#### 7.4 Procedures.

(a) First Participation Notice. In the event that the Company proposes to undertake an issuance of New Securities (in a single transaction or a series of related transactions), it shall give to each Rights Holder written notice of its intention to issue New Securities (the "First Participation Notice"), describing the amount and type of New Securities, the price and the general terms upon which the Company proposes to issue such New Securities. Each Rights Holder shall have twenty (20) Business Days from the date of receipt of any such First Participation Notice to agree in writing to subscribe for up to such Rights Holder's Pro Rata Share of such New Securities for the price and upon the terms and conditions specified in the First Participation Notice by giving written notice to the Company and stating therein the quantity of New Securities to be subscribed for (not to exceed such Rights Holder's Pro Rata Share). If any Rights Holder fails to so respond in writing within such twenty (20) Business Day period, then such Rights Holder shall forfeit the right hereunder to subscribe for its Pro Rata Share of such New Securities, but shall not be deemed to forfeit any right with respect to any other issuance of New Securities.

(b) Second Participation Notice: Oversubscription. If any Rights Holder fails or declines to exercise its Preemptive Rights in accordance with subsection 7.4(a) above, the Company shall promptly give notice (the "Second Participation Notice") to the other Rights Holders who exercised in full their Preemptive Rights (the "Oversubscription Participants") in accordance with subsection 7.4(a) above. Each Oversubscription Participant shall have five (5) Business Days from the date of the Second Participation Notice (the "Second Participation Period") to notify the Company of its desire to subscribe for more than its Pro Rata Share of the New Securities, stating the number of the additional New Securities it proposes to subscribe for (the "Additional Number"). Such notice may be made by telephone if confirmed in writing within two (2) Business Days. If, as a result thereof, such oversubscription exceeds the total number of the remaining New Securities available for subscription, each Oversubscription Participant will be cut back by the Company with respect to its oversubscription to such number of remaining New Securities equal to the lesser of (i) the Additional Number and (ii) the product obtained by multiplying (A) the number of the remaining New Securities available for subscription by (B) a fraction, the numerator of which is the number of Ordinary Shares (including Preferred Shares on an as-converted basis) held by such Oversubscription Participant and the denominator of which is the total number of Ordinary Shares (including Preferred Shares on an as-converted basis) held by all the Oversubscription Participants.

**7.5 Failure to Exercise.** Upon the expiration of the Second Participation Period, or in the event no Rights Holder exercises the Preemptive Rights within twenty (20) Business Days following the issuance of the First Participation Notice, the Company shall have ninety (90) days thereafter to complete the sale of the New Securities described in the First Participation Notice with respect to which the Preemptive Rights hereunder were not exercised at the same or higher price and upon non-price terms not more favorable to the purchasers thereof than specified in the First Participation Notice. In the event that the Company has not issued and sold such New Securities within such ninety (90) day period, then the Company shall not thereafter issue or sell any New Securities without again first offering such New Securities to the Rights Holders pursuant to this Section 7.

---

## 8. Information and Inspection Rights.

**8.1 Delivery of Financial Statements.** The Group Companies shall deliver to each Rights Holder the following documents or reports:

(a) within ninety (90) days after the end of each fiscal year of the Company, a consolidated income statement and statement of cash flows for the Company for such fiscal year and a consolidated balance sheet for the Company as of the end of the fiscal year, audited and certified by a “Big-4” international accounting firms or any other accounting firm acceptable to the Majority Preferred Holders, and a management report including a comparison of the financial results of such fiscal year with the corresponding annual budget, all prepared in Chinese or in English upon the request of the Rights Holders, as approved by the Board and in accordance with the Accounting Standards consistently applied throughout the period;

(b) within forty-five (45) days of the end of each fiscal quarter, a consolidated unaudited income statement and statement of cash flows for such quarter and a consolidated balance sheet for the Company as of the end of such quarter, and a comparison of the financial results of each month with the corresponding monthly budget, all prepared in Chinese or in English upon the request of the Rights Holders, as approved by the Board and in accordance with the Accounting Standards consistently applied throughout the period (except for customary year-end adjustments and except for the absence of notes), and certified by the chief financial officer of the Company;

(c) as soon as practicable, but in any event within thirty (30) days after the end of each month during each fiscal year of the Company, unaudited consolidated management accounts of the Company prepared in Chinese or in English upon the request of the Rights Holders, and which at minimum shall contain (i) statements of income and of cash flows for such month; (ii) a balance sheet as of the end of such month; and (iii) a statement of shareholders’ equity as of the end of such month, all of which shall be prepared in accordance with the Accounting Standards consistently applied throughout the period (except for customary year-end adjustments and except for the absence of notes), and certified by the chief financial officer of the Company;

(d) an annual budget and business plan within thirty (30) days prior to the beginning of each fiscal year, setting forth: the projected balance sheets, income statements and statements of cash flows for each month during such fiscal year of each Group Company; projected detailed budgets for each such month; any dividend or distribution projected to be declared or paid; the projected incurrence, assumption or refinancing of indebtedness; and all other material matters relating to the operation, development and business of the Group Companies;

(e) copies of all documents or other information sent to all other shareholders and any reports or documents filed by the Company with any relevant securities exchange or Governmental Authority, no later than five (5) Business Days after such documents or information are filed by the Company; and

(f) as soon as practicable, any other information, including operational data, reasonably requested by any such Rights Holder.

---

**8.2 Inspection Rights.** Each of the Group Companies and the Principals covenant and agree that each Rights Holder shall have the right, at its own expense, at any time during regular working hours with reasonable prior notice to such Group Company to: (i) visit and inspect the properties of such Group Company, (ii) examine its books of account and records, (iii) to obtain copies of any document or other information held by such Group Company, and (iv) to discuss the affairs, finances, operations, compliance, employee matters, and accounts of any Group Company with its officers, directors, auditors, accountants, legal counsels, and investment bankers; provided, however, that such Rights Holder may be excluded from access to any material, records or other information if such disclosure will jeopardize the attorney-client privilege, except to the extent such Rights Holder agrees in writing to keep all such information confidential upon terms acceptable to the Company on advice of counsel (such acceptance shall not be unreasonably withheld). No such inspection, examination or inquiry, the failure to conduct same, nor any knowledge of any Rights Holder, including without limitation, any knowledge obtained by such Rights Holder in connection with any such inspection, investigation or inquiry, shall constitute a waiver of any rights such Rights Holder may have under any representation, warranty, covenant, term or agreement under this Agreement or the Purchase Agreement. Each Group Company and Principal shall use best efforts to promptly comply with any request made by a Preferred Holder relating to this Section 8.2.

## **9. Election of Directors.**

### **9.1 Board of Directors and Observers.**

(a) The Company shall have, and the Parties hereto agree to cause the Company to have, a Board consisting of three (3) Directors with the composition of the Board determined as follows: (i) the holders of a majority of the voting shares of the then issued and outstanding Ordinary Shares (excluding the Ordinary Shares issuable upon conversion of such Preferred Shares and voting as a separate class), shall be entitled to designate, appoint, remove, replace and reappoint at any time or from time to time two (2) Directors on the Board (each an “Ordinary Director”); initially being LI Hua (李华) and ZHANG Jie (张杰); and (ii) Tencent shall be exclusively entitled to appoint, remove, replace and reappoint at any time or from time to time one (1) Director to the Board (so long as Tencent continues to hold at least 10% of the then issued and outstanding Ordinary Shares (on an as-converted basis). For the avoidance of doubt, the Shares held by both Qiantang River and Image Frame (and their respective assignees) shall be taken into account when calculating the percentage of Shares held by Tencent) (the “Tencent Director”).

(b) The chairman of the Board (the “Chairman”) shall be appointed by the Board. The Chairman of the Company as at the date of this Agreement shall be LI Hua (李华). Neither the Chairman nor any director shall have a casting vote.

(c) Each Investor, so long as it holds any Shares, is entitled to appoint one (1) observer (the “Observer”) to attend and participate in all meetings (whether in person, telephonic or otherwise) of the Board of Directors and of the board of directors of each other Group Company, including all committees thereof, in a nonvoting observer capacity and the Company shall provide to each Observer, concurrently with and in the same manner as distributed to the directors or other voting members of the respective board, copies of all notices, agendas, board materials, information, minutes, draft resolutions, proposed actions by written consent, consents, and other materials and communications so distributed; provided, however, that the Observer shall agree to hold in confidence and trust all information so provided. Notwithstanding the foregoing, the Company reserves the right to exclude such Observer from any meeting or portion thereof if the Company believes, upon the advice of counsel, that such exclusion is reasonably necessary to preserve attorney-client privilege or if such attendance at any meeting or a portion thereof would result in a material conflict of interest, and provided, further, that the Company may exclude from the materials sent to such Observer any materials that the Company believes should be excluded to prevent a material conflict of interest, or that the Company believes, upon advice of counsel, should be excluded to preserve the attorney-client privilege. The right to appoint an Observer shall terminate upon the earlier of (i) the termination of this Agreement pursuant to Section 12.1; or (ii) the consummation of a Qualified IPO. No Observer shall be recorded or represented to be a member of any board or to have voted at any board meetings or on any board resolution nor shall any such Observer be counted towards the quorum for any board meeting or proceeding.

## **9.2 Voting Agreements.**

(a) With respect to each election of Directors, each holder of voting securities of the Company shall vote at each meeting of shareholders of the Company, or in lieu of any such meeting shall give such holder’s written consent with respect to, as the case may be, all of such holder’s voting securities of the Company as may be necessary (i) to keep the authorized size of the Board at three (3) Directors, (ii) to cause the election or re-election as members of the Board, and during such period to continue in office, each of the individuals designated pursuant to Section 9.1, and (iii) against any nominees not designated pursuant to Section 9.1.

(b) Any Director designated pursuant to Section 9.1 may be removed from the Board, either for or without cause, only upon the affirmative vote of the Shareholder or group of Shareholders then entitled to designate or elect such Director pursuant to Section 9.1 given at a special meeting of such Shareholders duly called or by an action by written consent for that purpose, and the Parties agree not to seek, vote for or otherwise effect the removal of any such Director without such vote or written consent. Any vacancy in the Board caused as a result of removal of a Director or vacancy of the office of Director due to the Director’s resignation, death, bankruptcy, arrangement or composition with such Director’s creditors, or unsound mind, who shall have been designated or elected by a specified group of Shareholders, may be filled by, and only by, the affirmative vote of the group of Shareholders then entitled to elect such Director, given at a special meeting of such Shareholders duly called or by an action by written consent for that purpose, unless otherwise agreed upon among such Shareholders.

**9.3 Board Meeting; Quorum.** Subject to the provisions of the Memorandum and Articles, the Directors may regulate their proceedings as they think fit, provided however unless otherwise approved by the Board (which approval includes the consent of the Tencent Director), that (i) the board meetings shall be held at least once every three (3) months; and (ii) a written notice of each meeting, agenda of the business to be transacted at the meeting and, to the extent reasonably practicable, all documents and materials to be circulated at or presented to the meeting shall be sent to all the Directors and Observers entitled to receive notice of the meeting at least ten (10) Business Days before the meeting and a copy of the minutes of the meeting shall be sent to such Directors. Subject to applicable Laws, a meeting of the Board shall only proceed where there are present (whether in person or by means of a conference telephone or another equipment which allows all the participants in the meeting to speak to and hear each other simultaneously) two (2) Directors in office elected in accordance with Section 9.1 that include the Tencent Director. Notwithstanding the foregoing, if notice of the Board meeting has been duly delivered to all the Directors prior to the scheduled meeting in accordance with the notice procedures under the Charter Documents of the Company, and the number of directors required to be present under this Section 9.3 for such meeting to proceed is not present within one half hour from the time appointed for the meeting, the meeting shall be adjourned to the seventh (7<sup>th</sup>) following Business Day at the same time and place (or to such other time or such other place as the Directors may determine) with notice delivered to all the Directors in accordance with the notice procedures under the Charter Documents of the Company and, if at the adjourned meeting, the number of Directors required to be present under this Section 9.3 for such meeting to proceed is not present within one half hour from the time appointed for the meeting, then the Directors present shall be a quorum, as long as not less than two (2) Directors are present, whether or not the Tencent Director is included. All minutes and other records of proceedings of the Board shall clearly distinguish between the differing capacities of attendees or participants and, in the case of individual participants, between attendance at the meeting and voting on any resolutions or other proceedings.

---

**9.4 Expenses.** The Company will promptly pay or reimburse each non-employee Board member for all reasonable out-of-pocket expenses incurred in connection with attending board or committee meetings and otherwise performing their duties as directors and committee members.

**9.5 Alternates.** Subject to applicable Law, each Director shall be entitled to appoint an alternate to serve at any Board meeting, and such alternate shall be permitted to attend all Board meetings and vote on behalf of the director for whom she or he is serving as an alternate.

**9.6 D&O Insurance.** At the request of any Director, the Company shall obtain, within ninety (90) days of the date upon receipt of such request, a commercially reasonable directors and officers liability insurance policy in favor of all directors of the Company from financially sound and reputable insurers, the amount of which shall be approved by the Board.

**9.7 Indemnification.** To the fullest extent permitted by Law, the Group Companies shall indemnify and hold harmless each board director appointed pursuant to Section 9.1(a) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he/she is or was a director of any of the Group Companies, or is or was a director of any of the Group Companies serving at the request of a Group Company as a director of another company, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he/she acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Group Company on which he served as a director of the board, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his/her conduct was unlawful.

---

**9.8 Subsidiaries.** To the fullest extent permitted by Law, the Parties hereto shall, if so requested by the Tencent Director, cause the board of directors of each Group Company to be composed in the same manner as provided in Section 9.1(a) and the quorum of the Board of each Group Member to be constituted in the same manner as provided in Section 9.3 or such other manner as approved by the Board. The Parties shall cause their nominees on the board of any Group Company to vote in the same manner determined by the Board of the Company, subject to their applicable fiduciary duties. The Parties hereto shall take all steps as are necessary to cause the provisions with respect to the governance of the Company to apply *mutatis mutandis* to the governance of each other Group Company. The Company shall institute and keep in place such arrangements as are reasonably satisfactory to the Board of the Company (which includes the consent of the Tencent Director) such that the Company, to the extent reasonably practicable, (i) will at all times control the operations of each other Group Company, and (ii) will at all times be permitted to properly consolidate the financial results for each other Group Member in the consolidated financial statements for the Company prepared under the Accounting Principles.

**10. Protective Provisions.**

**10.1 Acts of the Group Companies Requiring Approvals of Majority Preferred Holders.** Regardless of anything else contained herein or in the Charter Documents of any Group Company, each Group Company and Principal shall procure that no Group Company shall take, permit to occur, approve, authorize, or agree or commit to do any of the following, whether in a single transaction or a series of related transactions, whether directly or indirectly, and whether or not by amendment, merger, consolidation, scheme of arrangement, amalgamation, or otherwise, unless approved by the Majority Preferred Holders in advance in writing or by duly adopted resolutions:

(a) any amendment or change of the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, any Preferred Shares;

(b) any action that authorizes, creates, issues, or changes the authorized number of (A) any class or series of Equity Securities having rights, preferences, privileges, powers, limitations or restrictions superior to or on a parity with any Preferred Shares in issue, whether as to liquidation, conversion, dividend, voting, redemption, or otherwise, or any Equity Securities convertible into, exchangeable for, or exercisable into any Equity Securities having rights, preferences, privileges, powers, limitations or restrictions superior to or on a parity with any Preferred Shares in issue, whether as to liquidation, conversion, dividend, voting, redemption or otherwise, or (B) New Securities;

(c) any action that reclassifies, reorganizes, or recapitalizes any outstanding Equity Securities, except pursuant to Article 8.3 of the Memorandum and Articles;

---

(d) any purchase, repurchase, redemption or retirement of any Equity Securities of any Group Company, other than repurchases of such Equity Securities pursuant to share restriction agreements approved by the Board upon termination of a director, employee or consultant, at the original cost paid by such director, employee, or consultant;

(e) any amendment or modification to or waiver under any of the Charter Documents of any Group Company;

(f) any declaration, set aside or payment of a dividend or other distribution, or the adoption of, or any change to, the dividend policy, of any Group Company;

(g) adoption, amendment or termination of the ESOP or any other equity incentive, purchase or participation plan for the benefit of employees, officers, directors, contractors, advisors or consultants;

(h) engagement in any transaction or execution of any agreement (including but not limited to the termination, extension, continuation after expiry, renewal, amendment, variation or waiver of any term under agreement with respect to any transaction or series of transactions) with any Related Party or any relative of Related Party;

(i) any merger, amalgamation or consolidation of any Group Company with any Person, or the purchase or other acquisition by any Group Company (whether individually or in combination with the Company or any other Group Company) of all or substantially all of the assets, equity or business of another Person, or any Deemed Liquidation Event;

(j) any sale, transfer, or other disposal of, or the incurrence of any Lien on, any substantial part of any Group Company's assets;

(k) with respect to any Group Company, other than any non-exclusive license granted in the ordinary course of business, any sale, transfer, license, or other disposal of, or the incurrence of any Lien on, any copyright, trademark, patent or other Intellectual Property;

(l) with respect to any Group Company, the commencement of or consent to any proceeding seeking (i) to adjudicate as bankrupt or insolvent, (ii) liquidation, winding up, dissolution, reorganization, or other arrangement under law relating to bankruptcy, insolvency or reorganization or relief of debtors, or (iii) the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property;

(m) any change of the size or composition of the board of directors of any Group Company;

(n) any change in the equity ownership of any Group Company in any other Group Company, or any amendment or modification to or waiver under any of the Control Documents;

---

(o) any material change to the business scope or nature of business, or cessation of any business line of any Group Company; or

(p) any action by a Group Company to authorize, approve or enter into any agreement or obligation with respect to any of the actions listed above.

Notwithstanding anything to the contrary contained herein, where any act listed in clauses (a) through (o) above requires the approval of the Shareholders of the Company by way of a special resolution accordance with the applicable Laws, and if the Shareholders vote in favor of such act but the approval of the Majority Preferred Holders has not been obtained, then the Majority Preferred Holders shall carry thirty-four percent (34%) of the votes on such special resolution.

**10.2 Acts of the Group Companies Requiring Board Approval.** Regardless of anything else contained herein or in the Charter Documents of any Group Company, no Group Company or Principal shall permit any Group Company to, take, permit to occur, approve, authorize, or agree or commit to do any of the following, whether in a single transaction or a series of related transactions, whether directly or indirectly, and whether or not by amendment, merger, consolidation, scheme of arrangement, amalgamation, or otherwise, unless approved by the Board (which approval includes the consent of the Tencent Director):

(a) incurrence of indebtedness or guarantees of indebtedness in excess of US\$2,000,000 in the aggregate for the Group during any fiscal year;

(b) extension of any loan or financial assistance to any third party except (i) to a wholly-owned Subsidiary of the Group or (ii) trade credit provided to bona fide customers in the ordinary course of business;

(c) purchase or lease of any business and/or assets valued in excess of US\$1,000,000 individually or US\$2,000,000 in the aggregate for the Group during any fiscal year;

(d) investment in, establishment of, or divestiture, pledge, mortgage or sale of an interest in any partnership, joint venture or other company in excess of US\$2,500,000 individually or US\$5,000,000 in the aggregate for the Group during any fiscal year;

(e) approval of, or any deviation from or amendment of, the annual budget or the business and financial plan of any Group Company;

(f) appointment or removal of the Chairman, Chief Executive Officer, President, or Chief Financial Officer of any Group Company;

(g) approval of any remuneration or compensation package for any director, employee or consultant of any Group Company which in the aggregate (including in kind compensation and allowance) exceeds US\$500,000 or its equivalent in another currency per annum;

(h) appointment or removal of auditors, or the change of the term of the fiscal year;

---

(i) adoption of or change to, a significant tax or accounting practice or policy or any internal financial controls and authorization policies, or the making of any significant tax or accounting election;

(j) any other action or transaction out of the ordinary course of business; or

(k) any action by a Group Company to authorize, approve or enter into any agreement or obligation with respect to any of the actions listed above.

The Group Companies and the Principals agree that they will use their best efforts to ensure that all matters related to the Subsidiaries of the Company, which have been duly approved by the Shareholders or the Board of the Company, should also be approved by the shareholders and/or board of directors of the Subsidiaries in accordance with their Charter Documents.

## **11. Additional Covenants.**

**11.1 Business of the Group Companies.** The business of each of the Group Companies shall be restricted to the Business, except with the approval of the Majority Preferred Holders.

**11.2 SAFE Registration.** If any holder or beneficial owner of any Equity Security of the Company (each, a “Security Holder”) is a “Domestic Resident” as defined in Circular 37 and is subject to the SAFE registration or reporting requirements under Circular 37, the Parties (other than the Investors) shall use their best efforts to comply with the applicable SAFE registration or reporting requirements under SAFE Rules and Regulations, and in the event such Security Holder fails to comply with the applicable SAFE registration or reporting requirements under SAFE Rules and Regulations, the Parties (other than the Investors) shall use their best efforts to promptly cause such Security Holder to cease to be a holder or beneficial owner of any Equity Security of the Company.

**11.3 Control Documents.** The Principals and the Group Companies shall ensure that each party to the relevant Control Documents fully perform its/his/her respective obligations thereunder and carry out the terms and the intent of the Control Documents. Any termination, or material modification or waiver of, or material amendment to any Control Documents shall require the written consent of the Majority Preferred Holders. If any of the Control Documents becomes illegal, void or unenforceable under PRC Laws after the date hereof, the Parties (other than the Investors) shall devise a feasible alternative legal structure reasonably satisfactory to the Majority Preferred Holders which gives effect to the intentions of the parties in each Control Document and the economic arrangement thereunder as closely as possible.

**11.4 Control of Subsidiaries.** The Company shall institute and keep in place such arrangements as are reasonably satisfactory to the Board such that the Company, to the extent reasonably practicable, (i) will at all times control the operations of each other Group Company, and (ii) will at all times be permitted to properly consolidate the financial results for each other Group Company in the consolidated financial statements for the Company prepared under the Accounting Standards.

---

### 11.5 Compliance with Laws; Registrations.

(a) The Group Companies shall, and the Principals shall cause the Group Companies to, conduct their respective business in compliance in all material respects with all applicable Laws, including, without limitation, all Laws relating to: securities trading and brokerage services in Hong Kong, PRC, and the United States (including without limitation, (1) the Securities Act, (2) the Hong Kong Securities and Futures Ordinance, (3) the Hong Kong Securities and Futures (Keeping of Records) Rules, and (4) the Hong Kong Securities and Futures (Accounts and Audit) Rules), (ii) paid services offered online or on mobile apps, (iii) the control of foreign exchange, (iv) the safeguard of privacy and personal data, (v) employment and social insurance, (vi) Tax and (iv) accounting, and shall obtain, make and maintain in effect, all consents from the relevant Governmental Authority or other Person required in respect of the due and proper establishment and operations of each Group Company as now conducted in accordance with applicable Laws. Without limiting the generality of the foregoing, none of the Group Companies shall, and the Group Companies and the Principals hereby agree to procure that the Group Companies, their respective Affiliates and their respective officers, directors, agents, employees, managers, independent contractors, and representatives, and any of the foregoing purporting to act on behalf of any Group Company shall not, at any time, directly or indirectly, offer, authorize, promise, condone, participate in, consummate, or fail to disclose fully in violation of any applicable Law: (i) the offering, making, providing, or paying of any gift, contribution or payment of anything of value to any Public Official, or the providing of or paying for any entertainment or any other expense, by any Person, (A) in violation of any applicable Compliance Law (as defined in the Purchase Agreement), (B) with the intent of obtaining any improper advantage, affecting or influencing any act or decision of any such Public Official, or assisting any Group Company in obtaining or retaining business for, or with, or directing business to, any Person, and/or (C) constituting a bribe, kickback or illegal or improper payment to assist any Group in obtaining or retaining business; (ii) the offering, making, providing, or paying of any payment to any agent, employee, officer or director of any entity with which a Group Company does business for the purpose of influencing such agent, employee, officer or director to do business with any Group Company; (iii) the taking of any action by any Person which would violate the FCPA (if taken by an entity subject to the FCPA), would violate the U.K. Bribery Act (if taken by a Person subject to the U.K. Bribery Act), or could reasonably be expected to constitute a violation of any applicable anti-bribery Law; (iv) the making of any false or fictitious entries in the books or records of any Group Company by any Person; (v) the engagement in any transaction, the maintenance of any bank account or the use of any corporate funds, except for transactions, bank accounts and funds which have been and are reflected in the normally maintained books and records of the Group Companies; (vi) the using of any assets of any Group Company for the establishment of any unlawful or unrecorded fund of monies or other assets, or the making of any unlawful or undisclosed payment; or (vii) the making of any payment in the nature of criminal bribery or any other unlawful payment. In addition, the Group Companies and the Principals hereby agree to procure that the Group Companies, their respective Affiliates and their respective officers, directors, agents, employees, managers, independent contractors, and representatives, and any of the foregoing purporting to act on behalf of any Group Company shall cease any actions that violate the terms of the preceding sentence, and the Group Companies and the Principals shall take all steps to remediate any such actions.

---

(b) Without limiting the generality of the foregoing, the Principals and each Group Company shall use all reasonable efforts to ensure that all filings and registrations with the Governmental Authorities so required by them shall be duly completed in accordance with the relevant rules and regulations, including without limitation any such filings and registrations with the PRC Ministry of Commerce, the PRC Ministry of Industry and Information Technology, the PRC State Administration of Industry and Commerce, the PRC State Administration for Foreign Exchange, the China Securities Regulatory Commission, the SEC, the Hong Kong Securities and Futures Commission, and any tax bureau, customs authorities, product registration authorities, health regulatory authorities, and the local counterpart of each of the aforementioned governmental authorities, in each case, as applicable.

#### **11.6 Stock Option Plan.**

Subject to [Section 10.1](#):

(a) unless otherwise approved by the Board with the consent of the Tencent Director, all shares, options or other securities or awards granted or issued under the ESOP (collectively, "[Awards](#)") shall be subject to a four-year vesting schedule, with 25% of each such Award vesting at each anniversary following date of such Award's grant or issuance.

(b) no issuances or grants will be made under any ESOP unless such ESOP is approved by the Board (which approval includes the consent of the Tencent Director), which among other things, shall provide for the Company's right to repurchase any and all unvested shares, options or other securities or awards granted thereunder at a price equivalent to the actual cost under certain circumstances. Any attempt to exercise any option or other security granted or issued under the ESOP in contravention of this paragraph shall be null, void and without effect.

(c) as soon as reasonably practicable when permitted under the applicable PRC laws, the Company shall, and shall cause each Group Company to, obtain all authorizations, consents, orders and approvals of all Governmental Authorities that may be or become necessary to effectuate the ESOP in the PRC in accordance with PRC Law; provided that the Company shall not permit any grantee in the PRC to exercise any award granted pursuant to the ESOP if any authorization, consent, order or approval of any Governmental Authority that is necessary to effectuate the ESOP in the PRC in accordance with PRC Law has not been obtained.

**11.7 Intellectual Property Protection.** Except with the written consents of the Majority Preferred Holders, the Group Companies shall take all reasonable steps to protect their respective material Intellectual Property rights, including without limitation, registering their material respective trademarks, brand names, domain names and copyrights, and shall require each employee and consultant of each Group Company to enter into an employment agreement, and a confidential information and intellectual property assignment agreement and a non-competition and non-solicitation agreement requiring such persons to protect and keep confidential such Group Company's confidential information, Intellectual Property and trade secrets, prohibiting such persons from competing with such Group Company for a reasonable time after their termination of employment with any Group Company, and requiring such persons to assign all ownership rights in their work product to the relevant Group Company.

---

**11.8 Internal Control System.** The Group Companies shall maintain their books and records in accordance with sound business practices and implement and maintain an adequate system of procedures and controls with respect to finance, management, accounting and compliance that meets international standards of good practice to provide reasonable assurance that (i) transactions by it are executed in accordance with management's general or specific authorization, (ii) transactions by it are recorded as necessary to permit preparation of financial statements in conformity with the Accounting Standards and to maintain asset accountability, (iii) access to assets of it is permitted only in accordance with management's general or specific authorization, (iv) segregating duties for cash deposits, cash reconciliation, cash payment, proper approval is established, (v) no personal assets or bank accounts of the employees, directors, officers are mingled with the corporate assets or corporate bank account, and no Group Company uses any personal bank accounts of any employees, directors, officers thereof during the operation of the business, (vi) the Group Companies are in compliance with the FCPA, the U.K. Bribery Act, and any other applicable anti-bribery or anti-corruption law, and (vii) the Group Companies operate in compliance with the provisions applicable to licensed person under the Hong Kong Securities and Futures Ordinance. Each of the Group Companies shall maintain a privacy policy in a form acceptable to the Investors, and shall periodically update the privacy policy in accordance with best business practices.

**11.9 No Avoidance; Voting Trust.** The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be performed hereunder by the Company, and the Company will at all times in good faith assist and take action as appropriate in the carrying out of all of the provisions of this Agreement. Each holder of Shares agrees that it shall not enter into any other agreements or arrangements of any kind with respect to the voting of any Shares or deposit any Shares in a voting trust or other similar arrangement, except as established in the Transaction Documents.

**11.10 United States Tax Matters.**

(a) None of the Group Companies will take any action inconsistent with its treatment of the Company as a corporation for US federal income tax purposes or elect to be treated as an entity other than a corporation for US federal income tax purposes.

(b) The Company shall use, and shall cause each of its Subsidiaries to use, its best efforts to arrange its management and business activities in such a way that the Company and each of its Subsidiaries are not treated as residents for tax purposes, or is otherwise subject to income tax in, a jurisdiction other than the jurisdiction in which they have been organized.

---

(c) The Company shall use its best effort to avoid future status of the Company or any of its Subsidiaries as a PFIC. Within forty-five (45) days from the end of each taxable year of the Company, the Company shall determine, in consultation with a reputable accounting firm, whether the Company or any of its Subsidiaries was a PFIC in such taxable year (including whether any exception to PFIC status may apply). If the Company determines that the Company or any of its Subsidiaries was a PFIC in such taxable year (or if a Governmental Authority or an Investor informs the Company that it has so determined), it shall, within sixty (60) days from the end of such taxable year, provide the following information to each holder of Preferred Shares that is a United States Person (“Direct US Investor”) and each United States Person that holds either direct or indirect interest in such holder (“Indirect US Investor”) (hereinafter, collectively referred to as a “PFIC Shareholder”): (i) all information reasonably available to the Company to permit such PFIC Shareholder to (A) accurately prepare its US tax returns and comply with any other reporting requirements, if any, arising from its investment in the Company and relating to the Company or any of its Subsidiaries’ classification as a PFIC and (B) make any election (including, without limitation, a “qualified electing fund” election under Section 1295 of the Code), with respect to the Company (or any of its Subsidiaries); and (ii) a completed “PFIC Annual Information Statement” as described under Treasury Regulation Section 1.1295-1(g). The Company shall be required to provide the information described above to an Indirect US Investor only if the relevant holder of Preferred Share requests in writing that the Company provide such information to such Indirect US Investor.

(d) Each of the Principals represents that such Person is not a United States Person and such Person is not owned, wholly or in part, directly or indirectly, by any United States Person. Each of the Principals shall provide prompt written notice to the Company of any subsequent change in its United States Person status. The Company shall use its best efforts to avoid future status of the Company or any of its Subsidiaries as a CFC. Upon written request of a holder of Preferred Shares from time to time, the Company will promptly provide in writing such information concerning its shareholders and the direct and indirect interest holders in each shareholder sufficient for such holder of Preferred Shares to determine whether the Company is a CFC. In the event that the Company does not have in its possession all the information necessary for the holder of Preferred Shares to make such determination, the Company shall promptly procure such information from its shareholders. The Company shall, upon written request of a holder of Preferred Shares, furnish on a timely basis all information requested by such holder to satisfy its (or any Indirect US Investor’s) US federal income tax return filing requirements, if any, arising from its investment in the Company and relating to the Company or any of its Subsidiaries’ classification as a CFC. The Company and each of its Subsidiaries shall use their reasonable efforts to avoid generating for any taxable year in which the Company or any of its Subsidiaries is a CFC, income that would be includible in the income of such holder of Preferred Shares (or any Indirect US Investor) pursuant to Section 951 of the Code.

(e) The Company shall comply and shall cause each of its Subsidiaries to comply with all record-keeping, reporting, and other requirements that a holder of Preferred Shares inform the Company are necessary to enable such holder to comply with any applicable US tax rules. The Company shall also provide each holder of Preferred Shares with any information reasonably requested by such holder of Preferred Shares to enable such holder to comply with any applicable US tax rules.

---

(f) The cost incurred by the Company in providing the information that it is required to provide, or is required to cause to be provided, and the cost incurred by the Company in taking the action, or causing the action to be taken, as described in this Section 11.10 shall be borne by the Company.

**11.11 Other Tax Matters.** The Parties (other than the Investors) agree to jointly and severally indemnify the Investors from and against (i) any Taxes imposed on the Investors by any Governmental Authority in connection with its investment in the Company, and (ii) any loss, claim, liability, expense, or other damage (including diminution in the value of the Company business or such Investor's investment in the Company) attributable to (A) any Taxes (or the non-payment thereof) of any Group Company for all taxable periods ending on or before the Closing and the portion through the end of the Closing for any taxable period that includes (but does not end on) the Closing, (B) any Taxes of any other Person imposed by any Governmental Authority on any Group Company as a transferee, successor, withholding agent, accomplice, or party providing conveniences in connection with an event or transaction occurring before the Closing, and (C) any breach of any representations or warranties contained in Section 11.10 and this Section 11.11.

**11.12 Confidentiality.** The Parties acknowledge that the terms and conditions of this Agreement and the other Transaction Documents, and all exhibits, restatements and amendments hereto and thereto, including their existence, shall be considered confidential information and shall not be disclosed by the parties to any third party except with the prior written consent of each of the Investors and the Company; provided, however, such obligation of confidentiality shall not apply to (i) information which was in the public domain or otherwise known to the relevant Party before it was furnished to it by another Party hereto or, after it was furnished to that Party, entered the public domain otherwise than as a result of (A) a breach by that Party of this Section 11.12 or (B) a breach of a confidentiality obligation by the disclosing Party, where the breach was known to that Party; (ii) information the disclosure of which is necessary in order to comply with applicable Law, the order of any court, the requirements of a stock exchange or other governmental or regulatory authority or to obtain tax or other clearances or consents from any relevant authority (provided, however, that such disclosing Party shall promptly provide the other Parties with written notice of that fact so that such other Parties may seek a protective order, confidential treatment or other appropriate remedy and in any event shall furnish only that portion of the information that is legally required and shall exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information); (iii) information disclosed by any of the Investors to a bona fide proposing purchaser of any Equity Securities of the Company; or (iv) information disclosed by the Company to its current or bona fide prospective investors or business partners, Affiliates and their respective employees, bankers, accountants or legal counsels who need to know such information, in each case only where such Persons are informed of the confidential nature of the such information and are under appropriate confidentiality obligations substantially similar to those set forth in this Section 11.12.

---

**11.13 Non-Competition.** From and after the date of this Agreement and for a period of twenty-four (24) months following the earlier of (a) the termination of this Agreement, or (b) as to each Principal, the date such Principal directly or indirectly through their Affiliates, no longer holds any Shares (the “Restricted Period”), each Principal shall not (except in connection with the exclusive provision of services to the Company or its Subsidiaries), and the Group Companies and the Principals shall procure that each of the Key Employees do not, without the approval of the Majority Preferred Holders, (i) engage, directly or indirectly, in a Competitive Business Activity in the PRC or Hong Kong, or approach, contact or solicit for itself or any entity any business, suppliers, distributors, sub-distributors, importers, direct and indirect end user customers or clients in connection with a Competitive Business Activity in the PRC or Hong Kong, and (ii) persuade, solicit, encourage, entice, influence, induce any employee of the Company or its Subsidiaries during the Restricted Period to terminate his or her employment arrangement with the Company or its Subsidiaries. For the purposes of this Agreement, Shenzhen Bairensi Investment Co., Ltd. (深圳市百仁思投资有限公司) is deemed to be primarily engaged in a business in competition with that of the Business.

**11.14 Disclaimer of Corporate Opportunity Doctrine.** The Parties (other than the Investors) acknowledges that each Investor (including its Affiliates) (an “Investor Party”) may have, from time to time, information that may be of interest to the Group (“Information”) regarding a wide variety of matters including, by way of example only, (a) an Investor Party’s technologies, plans and services, and plans and strategies relating thereto, (b) current and future investments an Investor Party has made, may make, may consider or may become aware of with respect to other companies and other technologies, products and services, including, without limitation, technologies, products and services that may be competitive with the Group’s, and (c) developments with respect to the technologies, products and services, and plans and strategies relating thereto, of other companies, including, without limitation, companies that may be competitive with the Group. The Group Companies recognize that a portion of such Information may be of interest to the Group. Such Information may or may not be known by the Observer. The Group Companies, as a material part of the consideration for this Agreement, agree that each Investor and its Observer shall have no duty to disclose any Information to any Group Company or permit the Group Companies to participate in any projects or investments based on any Information, or to otherwise take advantage of any opportunity that may be of interest to the Group if it were aware of such Information, and hereby waives, to the extent permitted by law, any claim based on the corporate opportunity doctrine or otherwise that could limit an Investor’s ability to pursue opportunities based on such Information or that would require an Investor to disclose any such Information to the Group or offer any opportunity relating thereto to any Group Company.

**11.15 Facilitation of Sales or Transfers.** Upon request by an Investor from time to time in connection with the sale or contemplated sale or transfer of any Shares then held by such Investor in accordance with the Transaction Documents, as the case may be, the Company shall, at its own expense, exercise best efforts to facilitate such sale or transfer in a timely manner, such efforts to include, as applicable, (i) promptly instructing the Company’s transfer agent to remove legends from any certificates representing said Shares, and (ii) if depository receipts representing shares of the Company are then listed or traded on any exchange or inter-dealer quotation system, (A) promptly instructing the Company’s share registrar and depository agent to issue depository receipts against deposit of the Shares and to cause such depository receipts to be deposited in such Investor’s brokerage account(s), and (B) promptly paying all fees and expenses related to such depository facility, including all applicable conversion fees and maintenance fees. All Parties (except for the Investors) acknowledges that time is of the essence with respect to its obligations under this Section 11.15.

---

## 12. Miscellaneous.

**12.1 Termination.** This Agreement shall terminate upon the mutual consent of (i) the Company; (ii) the Majority Preferred Holders; and (iii) the Persons holding at least a majority of the Ordinary Shares held by the Principals. The provisions of Section 7, 8, 9, 10, and 11 shall terminate immediately prior to the consummation of a Qualified IPO. If this Agreement terminates, the Parties shall be released from their obligations under this Agreement, except in respect of any obligation stated, explicitly or otherwise, to continue to exist after the termination of this Agreement (including without limitation those under Section 2 through 6 and 12). If any Party breaches this Agreement before the termination of this Agreement, it shall not be released from its obligations arising from such breach on termination.

**12.2 Further Assurances.** Upon the terms and subject to the conditions herein, each of the Group Companies and Principals agrees to use its reasonable efforts to take or cause to be taken all action, to do or cause to be done, to execute such further instruments, and to assist and cooperate with the other Parties hereto in doing, all things necessary, proper or advisable under applicable Laws or otherwise to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

**12.3 Assignments and Transfers; No Third Party Beneficiaries.** Except as otherwise provided herein, this Agreement and the rights and obligations of the Parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns and legal representatives, but shall not otherwise be for the benefit of any third party. Notwithstanding the foregoing provision, the rights of each Investor hereunder (including, without limitation, registration rights) are assignable (together with the related obligations) in connection with the transfer of the Equity Securities of the Company held by such Investor. This Agreement and the rights and obligations of each Principal and Group Company hereunder shall not otherwise be assigned without the mutual written consent of the other Parties except as expressly provided herein.

**12.4 Governing Law.** This Agreement shall be governed by and construed under the Laws of Hong Kong without regard to principles of conflict of laws thereunder.

**12.5 Dispute Resolution.** Any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or connected with this Agreement, including any dispute as to the construction, validity, interpretation, termination, enforceability or breach of this Agreement, as well as any dispute over arbitrability or jurisdiction ("Dispute") shall be exclusively resolved through final and binding arbitration pursuant to this section, it being the intention of the parties that this is a broad form arbitration agreement designed to encompass all possible Disputes. The arbitration shall be administered by the Hong Kong International Arbitration Centre ("HKIAC") in accordance with the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The seat of the arbitration shall be Hong Kong. The arbitral tribunal shall consist of three (3) arbitrators. The arbitration shall be conducted in the English language, and the arbitrators shall be fluent in the English language. The award of the Tribunal shall be final and binding. Judgment on the award may be entered in any court of competent jurisdiction.

---

**12.6 Notices.** Any notice required or permitted pursuant to this Agreement shall be given in writing and shall be given either personally or by sending it by next-day or second-day courier service, fax, electronic mail or similar means to the address of the relevant Party as shown on Schedule SCHEDULE A (or at such other address as such Party may designate by fifteen (15) days' advance written notice to the other Parties to this Agreement given in accordance with this Section). Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a written confirmation of delivery, and to have been effected at the earlier of (i) delivery (or when delivery is refused) and (ii) expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by fax or electronic mail, service of the notice shall be deemed to be effected by properly addressing, and sending such notice through a transmitting organization, with a written confirmation of delivery, and to have been effected on the day the same is sent as aforesaid, if such day is a Business Day and if sent during normal business hours of the recipient, otherwise the next Business Day. Notwithstanding the foregoing, to the extent a "with a copy to" address is designated, notice must also be given to such address in the manner above for such notice, request, consent or other communication hereunder to be effective.

**12.7 Expenses.** If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party may be entitled.

**12.8 Rights Cumulative.** Each and all of the various rights, powers and remedies of a Party hereto will be considered to be cumulative with and in addition to any other rights, powers and remedies which such Party may have at Law or in equity in the event of the breach of any of the terms of this Agreement. The exercise or partial exercise of any right, power or remedy will neither constitute the exclusive election thereof nor the waiver of any other right, power or remedy available to such Party.

**12.9 Successor Indemnification.** If the Company or any of its successors or assignees consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger, then to the extent necessary, proper provision shall be made so that the successors and assignees of the Company assume the obligations of the Company with respect to indemnification of members of the Board of Directors as in effect immediately before such transaction, whether such obligations are contained in the Memorandum and Articles, or elsewhere, as the case may be.

**12.10 Severability.** In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. If, however, any provision of this Agreement shall be invalid, illegal, or unenforceable under any such applicable Law in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such Law, or, if for any reason it is not deemed so modified, it shall be invalid, illegal, or unenforceable only to the extent of such invalidity, illegality, or limitation on enforceability without affecting the remaining provisions of this Agreement, or the validity, legality, or enforceability of such provision in any other jurisdiction.

**12.11 Amendments and Waivers.** Any provision in this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only by the written consents of (i) the Company; (ii) the Majority Preferred Holders; and (iii) Persons holding at least a majority of the Ordinary Shares held by the Principals; provided, however, that no amendment or waiver shall be effective or enforceable in respect of an Investor if such amendment or waiver affects such Investor, respectively, materially and adversely differently from the other Investors, unless such Investor consents in writing to such amendment or waiver. Notwithstanding the foregoing, any Party may waive the observance as to such Party of any provision of this Agreement (either generally or in a particular instance and either retroactively or prospectively) by an instrument in writing signed by such Party without obtaining the consent of any other Party. Any amendment or waiver effected in accordance with this Section shall be binding upon all the Parties hereto.

**12.12 No Waiver.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right, power or remedy hereunder at any one or more times be deemed a waiver or relinquishment of such right, power or remedy at any other time or times.

**12.13 Delays or Omissions.** No delay or omission to exercise any right, power or remedy accruing to any Party under this Agreement, upon any breach or default of any other Party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting Party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any Party of any breach or default under this Agreement, or any waiver on the part of any Party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing.

**12.14 No Presumption.** The Parties acknowledge that any applicable Law that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. If any claim is made by a Party relating to any conflict, omission or ambiguity in the provisions of this Agreement, no presumption or burden of proof or persuasion will be implied because this Agreement was prepared by or at the request of any Party or its counsel.

---

**12.15 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.

**12.16 Entire Agreement.** This Agreement (including the Exhibits hereto) constitutes the full and entire understanding and agreement among the Parties with regard to the subjects hereof and thereof, and supersedes all other agreements between or among any of the Parties with respect to the subject matter hereof.

**12.17 Control.** In the event of any conflict or inconsistency between any of the terms of this Agreement and any of the terms of any of the Charter Documents for any of the Group Companies, or in the event of any dispute related to any such Charter Document, to the extent permitted by the laws of the Cayman Islands, the terms of this Agreement shall prevail in all respects as regards the Parties. The Parties agree to take all actions necessary or advisable, as promptly as practicable after the discovery of such conflict or inconsistency, to amend the Charter Documents so as to eliminate such inconsistency. This shall not affect the validity of the relevant provision as between the Parties to this Agreement or the respective obligations on the Parties as between themselves under this Agreement.

**12.18 Adjustments for Share Splits, Etc.** Wherever in this Agreement there is a reference to a specific number of Shares of the Company, then, upon the occurrence of any subdivision, combination or share dividend of the relevant class or series of the Shares, the specific number of shares so referenced in this Agreement shall automatically be proportionally adjusted, as appropriate, to reflect the effect on the outstanding shares of such class or series of Shares by such subdivision, combination or share dividend.

**12.19 Grant of Proxy.** Upon the failure of any Principal to vote the Equity Securities of the Company held thereby, to implement the provisions of and to achieve the purposes of this Agreement, such Principal hereby grants to a Person designated by the Company a proxy coupled with an interest in all Equity Securities of the Company held by such Principal, which proxy shall be irrevocable until this Agreement terminates pursuant to its terms or this Section is amended to remove such grant of proxy in accordance with Section 12.11 hereof, to vote all such Equity Securities to implement the provisions of and to achieve the purposes of this Agreement.

**12.20 Exculpation and Waiver of Reliance Among Investors.** Each Investor acknowledges that it is not relying upon any Person other than the Principals, the Group Companies and their officers and directors in their capacities as such, in making its investment or decision to invest in the Company or in entering into this Agreement. Specifically, each Investor stipulates that it is not relying on any other Investor or any agents, or professional advisers, or on any advice, representations, or work product of any of them. Each Investor agrees that no other Investor or the respective controlling persons, members, shareholders, officers, directors, partners, employees, agents, or professional advisers of any other Investor shall be liable for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the purchase and sale of the Preferred Shares or any transaction in connection with this Agreement or contemplated hereby. Each Investor hereby waives any claim against, and covenants not to sue, any other Investor or the respective controlling persons, members, shareholders, officers, directors, partners, employees, agents, or professional advisers of any Investor on account of any action heretofore or hereafter taken or omitted to be taken in connection with this Agreement or any transaction contemplated hereby.

---

**12.21 No Use of Name.** Without the prior written consent of the Investor, and whether or not it or any Affiliate thereof is then a shareholder of the Company, no party hereto shall (or shall permit any Affiliate thereof to) (i) use, publish or reproduce the name or logo of such Investor or any similar name, trademark or logo in any manner, context or format (including references on or links to websites, in press releases, or in other public announcements), (ii) claim itself as a partner of such Investor or its Affiliates, (iii) or make any press release, public announcement or other disclosure to any third party in respect of this Agreement or such Investor's subscription of Shares of the Company.

**12.22 Use of English Language.** This Agreement has been executed and delivered in the English language. Any translation of this Agreement into another language shall have no interpretive effect. All documents or notices to be delivered pursuant to or in connection with this Agreement shall be in the English language or, if any such document or notice is not in the English language, accompanied by an English translation thereof, and the English language version of any such document or notice shall control for purposes thereof.

**12.23 Third Party Rights.** Unless expressly provided to the contrary in this Agreement, a person who is not a party has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the laws of Hong Kong) to enforce or to enjoy the benefit of any term of this Agreement..

*(The remainder of this page is intentionally left blank; signature pages to follow)*

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**FUTU HOLDINGS LIMITED**  
(富途控股有限公司)

By /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU SECURITIES INTERNATIONAL (HONG KONG) LIMITED**  
(富途证券国际(香港)有限公司)

By /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU SECURITIES (HONG KONG) LIMITED**  
(富途证券(香港)有限公司)

By /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU NETWORK TECHNOLOGY LIMITED**  
(富途网络科技有限公司)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**SHENZHEN FUTU INTERNET TECHNOLOGY CO., LTD.**  
(深圳市富途网络科技有限公司)  
(Seal: /s/ Shenzhen Futu Internet Technology Co., Ltd.)

By     /s/ Li Hua      
Name: LI Hua (李华)  
Title: Legal Representative

**BEIJING FUTU INTERNET TECHNOLOGY CO., LTD.**  
(北京市富途网络科技有限公司)  
(Seal: /s/ Beijing Futu Internet Technology Co., Ltd.)

By     /s/ Li Hua      
Name: LI Hua (李华)  
Title: Legal Representative

**FUTU INTERNET TECHNOLOGY (SHENZHEN) CO., LTD.**  
(富途网络科技（深圳）有限公司)  
(Seal: /s/ Futu Internet Technology (Shenzhen) Co., Ltd.)

By:     /s/ Li Hua      
Name: LI Hua (李华)  
Title: Legal Representative

**SHENZHEN SHIDAI FUTU CONSULTING LIMITED**  
(深圳市时代富途咨询有限公司)  
(Seal: /s/ Shenzhen Shidai Futu Consulting Limited)

By:     /s/ Li Hua      
Name: LI Hua (李华)  
Title: Legal Representative

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**SHENZHEN QIANHAI FUZHITU INVESTMENT CONSULTING LIMITED**

(深圳市前海富之途投资咨询有限公司)

(Seal: /s/ Shenzhen Qianhai Fuzhitu Investment Consulting Limited)

By: /s/ Wu Biwei

Name: WU Biwei (鄂必伟)

Title: Legal Representative

**SHEN SI INTERNET TECHNOLOGY (BEIJING) CO., LTD.**

(慎思网络技术(北京)有限公司)

(Seal: /s/ Shen Si Internet Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**FUTU INC.**

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU NZ LIMITED**

By: /s/ Chan Wingkei

Name: Chan Wingkei

Title: Director

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

PRINCIPALS:

/s/ Li Hua  
**LI Hua (李华)**

/s/ Li Lei  
**LI Lei (李镛)**

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**QIANTANG RIVER INVESTMENT LIMITED**

By: /s/ MA Huateng

Name: MA Huateng

Title: Director

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**IMAGE FRAME INVESTMENT (HK) LIMITED**  
意像架構投資（香港）有限公司

By /s/ MA Huateng

Name: MA Huateng

Title: Director

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**MATRIX PARTNERS CHINA III HONG KONG LIMITED**

By: /s/ Bo Shao

Name: Bo Shao

Title: Director

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**SEQUOIA CAPITAL CV IV HOLDCO, LTD.**

By: /s/ Ip Siu Wai Eva

Name: Ip Siu Wai Eva

Title: Authorized Signatory

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**SCC VENTURE VI HOLDCO, LTD.**

By: /s/ Ip Siu Wai Eva

Name: Ip Siu Wai Eva

Title: Authorized Signatory

SIGNATURE PAGE TO SECOND AMENDED AND RESTATED SHAREHOLDERS AGREEMENT – FUTU HOLDINGS LIMITED

---

**SCHEDULE A**

**ADDRESS FOR NOTICES**

**If to the Group Companies:**

Address: F9, Unit 3, Building C, Kexing Science Park, No. 15, North Keyuan Road, Nanshan District, Shenzhen  
Tel: +86-755-86636688  
Fax: +86-755-86636388  
Attention: LI Hua (李华)

**If to the Principals:**

Address: F9, Unit 3, Building C, Kexing Science Park, No. 15, North Keyuan Road, Nanshan District, Shenzhen  
Tel: +86-755-86636688  
Fax: +86-755-86636388  
Attention: LI Hua (李华)

**If to Qiantang River or Image Frame:**

Address:  
c/o Tencent Holdings Limited  
Level 29, Three Pacific Place  
1 Queen's Road East  
Wanchai, Hong Kong  
Attention: Compliance and Transactions Department  
Email: legalnotice@tencent.com

with a copy to:

Tencent Building, Keji Zhongyi Avenue,  
Hi-tech Park, Nanshan District,  
Shenzhen 518057, PRC  
Attention: Mergers and Acquisitions Department  
Email: PD\_Support@tencent.com

---

**If to Matrix:**

Address: Address: Flat 2807, 28/F, AIA Central, No.1 Connaught Road, Central, Hong Kong  
Tel: (852) 3651 6220  
Fax: (852) 3651 6111  
Attention: Matrix Partners HK Management Limited

**If to Sequoia Holdco or SCC:**

Address: 3613, 36/F, Two Pacific Place, 88 Queensway, Hong Kong  
Tel: +852-2501-8989  
Fax: +852-2501-5249  
Attention: Kok Wai Yee

---

**SCHEDULE I**

**LIST OF PRINCIPALS**

<u>Name of Principals</u>	<u>PRC ID Card Number</u>
LI Hua (李华)	
LI Lei (李磊)	

## Futu Holdings Limited/富途控股有限公司

## AMENDED AND RESTATED

## 2014 SHARE INCENTIVE PLAN

(amended and restated with effect from November 30, 2018, pursuant to resolutions of the Board passed on December 28, 2018)

**1. PURPOSE OF THE PLAN.**

The purpose of this Plan is to promote the success of the Company and the interests of its shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of Award recipients with those of the Company's shareholders generally.

**2. ADMINISTRATION.**

**2.1 Administrator.** This Plan shall be administered by and all Awards under this Plan shall be authorized by the Administrator. The "Administrator" means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and any other applicable law, to one or more officers of the Company, its powers under this Plan (a) to designate the officers and employees of the Company and its Affiliates who will receive grants of Awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of, such Awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Memorandum and Articles of Association of the Company or the applicable charter of any Administrator, a majority of the members of the acting Administrator shall constitute a quorum, and the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

**2.2 Plan Awards; Interpretation; Powers of Administrator.** Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of Awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within the authority delegated to that committee or person(s)), including, without limitation, the authority to:

- (a) determine eligibility and, from among those persons determined to be eligible, the particular Eligible Persons who will receive Awards;

- 
- (b) grant Awards to Eligible Persons, determine the price and number of securities to be offered or awarded to any of such persons, determine the other specific terms and conditions of Awards consistent with the express limits of this Plan, establish the installments (if any) in which such Awards will become exercisable or will vest (which may include, without limitation, performance and/or time-based schedules) or determine that no delayed exercisability or vesting is required, establish any applicable performance targets, and establish the events of termination or reversion of such Awards;
  - (c) approve the forms of Award Agreements, which need not be identical either as to type of Award or among Participants;
  - (d) construe and interpret this Plan and any Award Agreement or other agreements defining the rights and obligations of the Company, its Affiliates, and Participants under this Plan, make factual determinations with respect to the administration of this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the Awards;
  - (e) cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding Awards, subject to any required consent under Section 7.7.4;
  - (f) accelerate or extend the vesting or exercisability or extend the term of any or all outstanding Awards (within the maximum ten-year term of Awards under Section 5.4.2) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature);
  - (g) determine Fair Market Value for purposes of this Plan and Awards;
  - (h) determine the duration and purposes of leaves of absence that may be granted to Participants without constituting a termination of their employment for purposes of this Plan;
  - (i) determine whether, and the extent to which, adjustments are required pursuant to Section 7.3 hereof and authorize the termination, conversion, substitution or succession of awards upon the occurrence of an event of the type described in Section 7.3; and
  - (j) implement any procedures, steps, additional or different requirements as may be necessary to comply with any laws of the People's Republic of China (the "PRC") that may be applicable to this Plan, any Award or any related documents, including but not limited to foreign exchange laws, tax laws and securities laws of the PRC.

---

**2.3 Binding Determinations.** Any action taken by, or inaction of, the Company, any Affiliate, the Board or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor the Administrator, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any Award), and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

**2.4 Reliance on Experts.** In making any determination or in taking or not taking any action under this Plan, the Administrator may obtain and may rely upon the advice of experts, including employees of and professional advisors to the Company. No director, officer or agent of the Company or any of its Affiliates shall be liable for any such action or determination taken or made or omitted in good faith.

**2.5 Delegation.** The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or any of its Affiliates or to third parties.

### **3. ELIGIBILITY.**

Awards may be granted under this Plan only to those persons that the Administrator determines to be Eligible Persons. An "**Eligible Person**" means any person who qualifies as one of the following at the time of grant of the respective Award:

- (a) an officer (whether or not a director) or employee of the Company or any of its Affiliates;
- (b) any member of the Board; or
- (c) any director of one of the Company's Affiliates, or any individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Company or one of its Affiliates, as applicable, in a capital raising transaction or as a market maker or promoter of that entity's securities) to the Company or one of its Affiliates.

An advisor or consultant may be selected as an Eligible Person pursuant to clause (c) above only if such person's participation in this Plan would not adversely affect (1) the Company's eligibility to rely on the Rule 701 exemption from registration under the Securities Act for the offering of shares issuable under this Plan by the Company, or (2) the Company's compliance with any other applicable laws.

An Eligible Person may, but need not, be granted one or more Awards pursuant to Section 5. An Eligible Person who has been granted an Award under this Plan may, if otherwise eligible, be granted additional Awards under this Plan if the Administrator so determines. However, a person's status as an Eligible Person is not a commitment that any Award will be granted to that person under this Plan.

---

Each Award granted under this Plan must be approved by the Administrator at or prior to the grant of the Award.

Notwithstanding the foregoing, any Award to be granted to any Eligible Person may, at the discretion of the Administrator, instead be granted to any trust established for the benefit of Eligible Persons (including without limitation Futu First Trust and VANTAGE EDGE HOLDINGS LIMITED or any other entity owned or controlled by Futu First Trust) (a “**Permitted Trust**”), to the intent and effect that such Permitted Trust shall hold, and shall be entitled to exercise, such Award for the benefit of such Eligible Person. Any Award which has been granted to any Participant, may at the discretion of the Administrator, be transferred and assigned by such Participant to a Permitted Trust, to the intent and effect that such Permitted Trust shall hold, and be entitled to exercise, such Award for the benefit of such Participant.

#### 4. SHARES SUBJECT TO THE PLAN.

**4.1 Shares Available.** Subject to the provisions of Section 7.3.1, the shares that may be delivered under this Plan will be the Company’s authorized but unissued Ordinary Shares (and any of its Ordinary Shares held as treasury shares). The Ordinary Shares issued and delivered may be issued and delivered for any lawful consideration.

**4.2 Share Limit.** Subject to the provisions of Section 7.3.1 and further subject to the share counting rules of Section 4.3, the maximum number of Ordinary Shares that may be delivered pursuant to Awards granted under this Plan will not exceed 135,032,132 shares (the “**Share Limit**”) in the aggregate. As required under U.S. Treasury Regulation Section 1.422-2(b)(3)(i), in no event will the number of Ordinary Shares that may be delivered pursuant to Incentive Stock Options granted under this Plan exceed the Share Limit.

**4.3 Replenishment and Reissue of Unvested Awards.** To the extent that an Award is settled in cash or a form other than Ordinary Shares, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan. No Award may be granted under this Plan unless, on the date of grant, the sum of (a) the maximum number of Ordinary Shares issuable at any time pursuant to such Award, plus (b) the number of Ordinary Shares that have previously been issued pursuant to Awards granted under this Plan, plus (c) the maximum number of Ordinary Shares that may be issued at any time after such date of grant pursuant to Awards that are outstanding on such date, does not exceed the Share Limit. Ordinary Shares that are subject to or underlie Options granted under this Plan that expire or for any reason are canceled or terminated without having been exercised (or Ordinary Shares subject to or underlying the unexercised portion of such Options in the case of Options that were partially exercised), will again, except to the extent prohibited by law or applicable listing or regulatory requirements, be available for subsequent Award grants under this Plan. Shares that are exchanged by a Participant or withheld by the Company as full or partial payment in connection with any Award under this Plan, as well as any shares exchanged by a Participant or withheld by the Company or one of its Affiliates to satisfy the tax withholding obligations related to any Award, shall be available for subsequent Awards under this Plan. Adjustments to the Share Limit pursuant to this Section 4.3 are subject to any applicable limitations of the Code in the case of Awards intended to be Incentive Stock Options.

---

**4.4 Reservation of Shares.** The Company shall at all times reserve a number of Ordinary Shares sufficient to cover the Company's obligations and contingent obligations to deliver shares with respect to Awards then outstanding under this Plan.

## **5. OPTION GRANT PROGRAM.**

**5.1 Option Grants in General.** Each Option shall be evidenced by an Award Agreement in the form approved by the Administrator. The Award Agreement evidencing an Option shall contain the terms established by the Administrator for that Award, as well as any other terms, provisions, or restrictions that the Administrator may impose on the Option or any Ordinary Shares subject to the Option; in each case subject to the applicable provisions and limitations of this Section 5 and the other applicable provisions and limitations of this Plan. The Administrator may require that the recipient of an Option promptly execute and return to the Company his or her Award Agreement evidencing the Award. In addition, the Administrator may require that the spouse of any married recipient of an Option also promptly execute and return to the Company the Award Agreement evidencing the Award granted to the recipient or such other spousal consent form that the Administrator may require in connection with the grant of the Award.

**5.2 Incentive Stock Option Status.** The Administrator will designate each Option granted under this Plan to a U.S. resident as either an Incentive Stock Option or a Nonqualified Option, and such designation shall be set forth in the applicable Award Agreement. Any Option granted under this Plan to a U.S. resident that is not expressly designated in the applicable Award Agreement as an Incentive Stock Option will be deemed to be designated a Nonqualified Option under this Plan and not an "incentive stock option" within the meaning of Section 422 of the Code. The Administrator may designate any Option granted under this Plan to a non-U.S. resident in accordance with the rules and regulations applicable to options in the jurisdiction in which such person is a resident.

### **5.3 Option Price.**

**5.3.1 Option Pricing Limits.** Subject to the following provisions of this Section 5.3.1, the Administrator will determine the purchase price per share of the Ordinary Shares covered by each Option (the "exercise price" of the Option) at the time of the grant of the Option, which exercise price will be set forth in the applicable Award Agreement. Unless agreed by the Administrator, the exercise price of an Option shall not be less than the greater of:

- (a) the par value of an Ordinary Share; or
- (b) 100% of the Fair Market Value of an Ordinary Share on the date of grant.

In accordance with the laws of the Cayman Islands, in no circumstances may the exercise price be less than the par value of the Ordinary Share issued.

**5.3.2 Payment Provisions.** The Company will not be obligated to issue Ordinary Shares to be purchased upon the exercise of an Option (or to deliver share certificates for such shares) unless and until it receives full payment of the exercise price therefor, all related withholding obligations under Section 7.6 have been satisfied, and all other conditions to the exercise of the Option set forth herein or in the Award Agreement have been satisfied. The purchase price of any Ordinary Shares purchased upon the exercise of an Option must be paid in full at the time of each purchase in such lawful consideration as may be permitted or required by the Administrator, which may include, without limitation, one or a combination of the following methods:

- 
- (a) cash, check payable to the order of the Company, or electronic funds transfer;
  - (b) notice and third party payment in such manner as may be authorized by the Administrator;
  - (c) the delivery of previously owned Ordinary Shares (which for the purposes hereof shall mean the repurchase by the Company of such Ordinary Shares at their Fair Market Value on the exercise date, and the utilization of the repurchase price as the payment of the exercise price of the new Ordinary Shares to be issued upon exercise of the Option);
  - (d) by a reduction in the number of Ordinary Shares otherwise deliverable pursuant to the Award in consideration for a fee payable by the Company to the Participant for such reduction, which fee shall be equal to the Fair Market Value of such shares (i.e. by which the number of shares deliverable under the Award has been so reduced), and which fee shall be utilized to pay, and shall be set off against, the purchase price of the Ordinary Shares to be issued upon the exercise of the Option;
  - (e) subject to such procedures as the Administrator may adopt, pursuant to a “cashless exercise”, provided, however that the Participant shall pay the par value of the Ordinary Shares in cash or other means which excludes “cashless exercise”; or
  - (f) if authorized by the Administrator or specified in the applicable Award Agreement, by a promissory note of the Participant consistent with the requirements of Section 5.3.3.

In no event shall any shares newly-issued by the Company be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable law. Ordinary Shares used to satisfy the exercise price of an Option (whether previously-owned shares or shares otherwise deliverable pursuant to the terms of the Option) shall be valued at their Fair Market Value on the date of exercise. Unless otherwise expressly provided in the applicable Award Agreement, the Administrator may eliminate or limit a Participant’s ability to pay the purchase or exercise price of any Award by any method other than cash payment to the Company. The Administrator may take all actions necessary to alter the method of Option exercise and the exchange and transmittal of proceeds with respect to Participants resident in the PRC not having permanent residence in a country other than the PRC in order to comply with applicable PRC foreign exchange and tax regulations and any other applicable PRC laws and regulations.

---

**5.3.3 Acceptance of Notes to Finance Exercise.** The Company may, with the Administrator's approval in each specific case, accept one or more promissory notes from any Eligible Person in connection with the exercise of any Option; provided that any such note shall be subject to the following terms and conditions:

- (a) The principal of the note shall not exceed the amount required to be paid to the Company upon the exercise, purchase or acquisition of one or more Awards under this Plan and the note shall be delivered directly to the Company in consideration of such exercise, purchase or acquisition.
- (b) The initial term of the note shall be determined by the Administrator; provided that the term of the note, including extensions, shall not exceed a period of five years.
- (c) The note shall provide for full recourse to the Participant and shall bear interest at a rate determined by the Administrator, but not less than the interest rate necessary to avoid the imputation of interest under the Code or other applicable tax law, rules or regulations, and to avoid any adverse accounting consequences in connection with the exercise, purchase or acquisition.
- (d) If the employment or services of the Participant by or to the Company and its Affiliates terminates, the unpaid principal balance of the note shall become due and payable on the 30th business day after such termination; provided, however, that if a sale of the shares acquired on exercise of the Option would cause such Participant to incur liability under Section 16(b) of the Exchange Act, the unpaid balance shall become due and payable on the 10th business day after the first day on which a sale of such shares could have been made without incurring such liability assuming for these purposes that there are no other transactions (or deemed transactions) in securities of the Company by the Participant subsequent to such termination.
- (e) If required by the Administrator or by applicable law, the note shall be secured by a pledge of any shares or rights financed thereby or other collateral, in compliance with applicable law.

The terms, repayment provisions, and collateral release provisions of the note and the pledge securing the note shall conform with all applicable rules and regulations, including those of the Federal Reserve Board of the United States and any applicable law, as then in effect.

**5.4 Vesting; Term; Exercise Procedure.**

---

**5.4.1 Vesting.** An Option may be exercised only to the extent that it is vested and exercisable. The Administrator will determine the vesting and/or exercisability provisions of each Option (which may be based on performance criteria, passage of time or other factors or any combination thereof), which provisions will be set forth in the applicable Award Agreement. Unless the Administrator otherwise expressly provides, once exercisable an Option will remain exercisable until the expiration or earlier termination of the Option.

**5.4.2 Term.** Each Option shall expire not more than 10 years after its date of grant. Each Option will be subject to earlier termination as provided in or pursuant to Sections 5.5 and 7.3 or the terms of the applicable Award Agreement.

**5.4.3 Exercise Procedure.** Any exercisable Option will be deemed to be exercised when (a) the applicable exercise procedures in the related Award Agreement have been satisfied (or, in the absence of any such procedures in the related Award Agreement, the Company has received written notice of such exercise from the Participant), and (b) in the case of an Option, the Company has received any required payment made in accordance with Section 5.3 and Section 7.6, and (c) in the case of an Option, the Company has received any written statement required pursuant to Section 7.5.1.

**5.4.4 Fractional Shares/Minimum Issue.** Fractional share interests will be disregarded, but may be accumulated. The Administrator, however, may determine that cash, other securities, or other property will be paid or transferred in lieu of any fractional share interests. No Option may be exercised as to fewer than 100 shares (subject to adjustment pursuant to Section 7.3.1) at one time unless the number as to which the Award is exercised is the total number at the time then subject to the vested and exercisable portion of the Award.

**5.5 *Effects of Termination of Employment on Options.***

**5.5.1 Dismissal for Cause.** Unless otherwise provided in the applicable Award Agreement and subject to earlier termination pursuant to or as contemplated by Section 5.4.2 or 7.3, if a Participant's employment by or service to the Company or any of its Affiliates is terminated by such entity for Cause, the Participant's Option will terminate on the Participant's Severance Date, whether or not the Option is then vested and/or exercisable.

**5.5.2 Termination by the Participant.** Unless otherwise provided in the applicable Award Agreement (consistent with applicable securities laws) and subject to earlier termination pursuant to or as contemplated by Section 5.4.2 or 7.3, if a Participant's employment by or service to the Company or any of its Affiliates is terminated by the Participant (including the circumstance where the employment term is not renewed upon expiration due to the Participant's reasons), the Participant's Option will terminate on the Participant's Severance Date, whether or not the Option is then vested and/or exercisable.

---

**5.5.3 Other Terminations of Employment.** Unless otherwise provided in the applicable Award Agreement (consistent with applicable securities laws) and subject to earlier termination pursuant to or as contemplated by Section 5.4.2 or 7.3, if a Participant's employment by or service to the Company or any of its Affiliates terminates or is terminated by Company or such Affiliate other than for Cause or terminates due to the Participant's death or Total Disability:

- (a) the Participant will have until the date that is 6 months after the Participant's Severance Date to exercise his or her Option (or portion thereof) to the extent that it was vested and exercisable on the Severance Date;
- (b) the Option, to the extent not vested and exercisable on the Participant's Severance Date, shall terminate on the Severance Date; and
- (c) the Option, to the extent exercisable for the 6-month period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 6-month period.

For the avoidance of doubt, any Participant who is a PRC citizen or resident in China, or otherwise, as the Administrator in its sole discretion may determine, may be deemed as a "domestic resident" as defined in the Circular No. 37 (and/or such successor circular) issued by the State Administration of Foreign Exchange of the People's Republic of China on July 4, 2014, the Option shall become exercisable only upon the satisfaction of all the conditions set forth in the relevant Award Agreement.

**5.6 Option Repricing/Cancellation and Regrant/Waiver of Restrictions.** Subject to Section 4 and Section 7.7 and the specific limitations on Options contained in this Plan, the Administrator from time to time may authorize, generally or in specific cases only, for the benefit of any Eligible Person, any adjustment in the exercise or base price, the vesting schedule, the number of shares subject to, or the term of, an Option granted under this Plan by cancellation of an outstanding Option and a subsequent regranting of the Option, by amendment, by substitution of an outstanding Option, by waiver or by other legally valid means. Such amendment or other action may result in, among other changes, an exercise or base price that is higher or lower than the exercise or base price of the original or prior Option, provide for a greater or lesser number of Ordinary Shares subject to the Option, or provide for a longer or shorter vesting or exercise period.

6. [INTENTIONALLY LEFT BLANK]

7. PROVISIONS APPLICABLE TO ALL AWARDS.

**7.1 Rights of Eligible Persons, Participants and Beneficiaries.**

**7.1.1 Employment Status.** No Person shall have any claim or rights to be granted an Award (or additional Awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

---

**7.1.2 No Employment/Service Contract.** Nothing contained in this Plan (or in any other documents under this Plan or related to any Award) shall confer upon any Eligible Person or Participant any right to continue in the employ or other service of the Company or any of its Affiliates, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Company or any Affiliate to change such person's compensation or other benefits, or to terminate his or her employment or other service, with or without cause at any time. Nothing in this Section 7.1.2, or in Section 7.3 or 7.15, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract. An Award Agreement shall not constitute a contract of employment or service.

**7.1.3 Plan Not Funded.** Awards payable under this Plan will be payable in Ordinary Shares or from the general assets of the Company, and (except as to the share reservation provided in Section 4.4) no special or separate reserve, fund or deposit will be made to assure payment of such Awards. No Participant, Beneficiary or other person will have any right, title or interest in any fund or in any specific asset (including Ordinary Shares, except as expressly provided) of the Company or any of its Affiliates by reason of any Award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any of its Affiliates and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to any Award hereunder, such right will be no greater than the right of any unsecured general creditor of the Company.

**7.1.4 Charter Documents.** The Memorandum and Articles of Association of the Company, as may lawfully be amended from time to time, may provide for additional restrictions and limitations with respect to the Ordinary Shares (including additional restrictions and limitations on the voting or transfer of Ordinary Shares) or priorities, rights and preferences as to securities and interests prior in rights to the Ordinary Shares. These restrictions and limitations are in addition to (and not in lieu of) those set forth in this Plan or any Award Agreement and are incorporated herein by this reference.

**7.2 *No Transferability; Limited Exception to Transfer Restrictions.***

**7.2.1 Limit on Exercise and Transfer.** Unless otherwise expressly provided in (or pursuant to) this Section 7.2, by applicable law and by the Award Agreement, as the same may be amended:

- (a) all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge;
- (b) Awards will be exercised only by the Participant; and
- (c) amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and, in the case of Ordinary Shares, registered in the name of, the Participant.

---

In addition, the shares shall be subject to the restrictions set forth in the applicable Award Agreement.

**7.2.2** Further Exceptions to Limits on Transfer. The exercise and transfer restrictions in Section 7.2.1 will not apply to:

- (a) transfers to the Company;
- (b) transfers by gift or domestic relations order to one or more “family members” (as that term is defined in SEC Rule 701 promulgated under the Securities Act) of the Participant, including transfers to a trust in which the Participant (or other family member) has more than 50% of the beneficial interest, a foundation in which the Participant (or other family member) controls the management of assets, or an entity in which the Participant (or other family member) owns more than 50% of the voting interest, so long as such transfer is expressly authorized by the Administrator and is in compliance with all applicable laws;
- (c) the designation of a Beneficiary to receive benefits if the Participant dies or, if the Participant has died, transfers to or exercises by the Participant’s Beneficiary, or, in the absence of a validly designated Beneficiary, transfers by will or the laws of descent and distribution; or
- (d) if the Participant has suffered a disability, permitted transfers or exercises on behalf of the Participant by the Participant’s duly authorized legal representative.

Notwithstanding anything else in this Section 7.2.2 to the contrary, but subject to compliance with all applicable laws, Incentive Stock Options will be subject to any and all transfer restrictions under the Code applicable to such awards or necessary to maintain the intended tax consequences of such Awards. Notwithstanding clause (b) above but subject to compliance with all applicable laws, any contemplated transfer by gift or domestic relations order to one or more family members of a Participant as referenced in clause (b) above is subject to the condition precedent that the transfer be approved by the Administrator in order for it to be effective. The Administrator may, in its sole discretion, withhold its approval of any such proposed transfer.

**7.3** *Adjustments; Changes in Control.*

---

**7.3.1 Adjustments.** Subject to Section 7.3.2 below, upon (or, as may be necessary to effect the adjustment, immediately prior to) any reclassification, recapitalization, share split (including a share split in the form of a share dividend) or reverse share split; any merger, combination, consolidation, or other reorganization; any split-up, spin-off, or similar extraordinary dividend distribution in respect of the Ordinary Shares; or any exchange of Ordinary Shares or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Ordinary Shares; then the Administrator shall equitably and proportionately adjust (1) the number and type of shares of Ordinary Shares (or other securities) that thereafter may be made the subject of Awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of Ordinary Shares (or other securities or property) subject to any outstanding Awards, (3) the grant, purchase, exercise or base price of any outstanding Awards, and/or (4) the securities, cash or other property deliverable upon exercise or vesting of any outstanding Awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding Awards.

Unless otherwise expressly provided in the applicable Award Agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Administrator shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based Awards to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding performance-based Awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code and Section 409A of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

Without limiting the generality of Section 2.3, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances pursuant to this Section 7.3.1, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

Unless otherwise expressly provided by the Administrator, in no event shall a conversion of one or more outstanding shares of the Company's preferred share (if any) or any new issuance of securities by the Company for consideration be deemed, in and of itself, to require an adjustment pursuant to this Section 7.3.1.

**7.3.2 Consequences of a Change in Control Event.** Upon the occurrence of a Change in Control Event, the Administrator may make provision for a cash payment in settlement of, or for the assumption, substitution or exchange of any or all outstanding Awards (or the cash, securities or other property deliverable to the holder(s) of any or all outstanding Awards) based upon, to the extent relevant in the circumstances, the distribution or consideration payable to holders of the Ordinary Shares upon or in respect of such event.

---

In addition, subject to Section 7.3.4, upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event each Option will become immediately vested and exercisable; provided, however, that such acceleration provision shall not apply, unless otherwise expressly provided by the Administrator, with respect to any Award to the extent that the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the Award, or the Award would otherwise continue in accordance with its terms, in the circumstances.

The foregoing Change in Control Event provisions shall not in any way limit the authority of the Administrator to accelerate the vesting of one or more Awards (as to all or only a portion of any Award) in such circumstances (including, but not limited to, a Change in Control Event) as the Administrator may determine to be appropriate, regardless of whether accelerated vesting of all or a portion of the Award(s) is otherwise required or contemplated by the foregoing in the circumstances.

The Administrator may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of cash, securities or other property settlement. In the case of Options, but without limitation on other methodologies, the Administrator may base such settlement solely upon the excess (if any) of the amount payable upon or in respect of such event over the exercise or base price of the Option, as applicable, to the extent of the then vested and exercisable shares subject to the Option.

In any of the events referred to in this Section 7.3.2, the Administrator may take such action contemplated by this Section 7.3.2 prior to such event (as opposed to on the occurrence of such event) to the extent that the Administrator deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying shares. Without limiting the generality of the foregoing, the Administrator may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of the Award if an event giving rise to acceleration does not occur.

**7.3.3 Early Termination of Awards.** Upon the occurrence of a Change in Control Event, each then-outstanding Award (whether or not vested and/or exercisable, but after giving effect to any accelerated vesting required in the circumstances pursuant to Sections 7.3.2 and 7.3.4) shall terminate, subject to any provision that has been expressly made by the Administrator, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such Award and provided that, in the case of Options that will not survive or be substituted for, assumed, exchanged, or otherwise continued or settled in the Change in Control Event, the holder of such Award shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding and vested Options (the vested portion of such Options determined after giving effect to any accelerated vesting required in the circumstances pursuant to Sections 7.3.2 and 7.3.4) in accordance with their terms before the termination of the Awards (except that in no case shall more than ten days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event). For purposes of this Section 7.3, an Award shall be deemed to have been "assumed" if (without limiting other circumstances in which an Award is assumed) the Award continues after the Change in Control Event, and/or is assumed and continued by a Parent (as such term is defined in the definition of Change in Control Event) following a Change in Control Event, and confers the right to purchase or receive, as applicable and subject to vesting and the other terms and conditions of the Award, for each Ordinary Share subject to the Award immediately prior to the Change in Control Event, the consideration (whether cash, shares, or other securities or property) received in the Change in Control Event by the shareholders of the Company for each Ordinary Share sold or exchanged in such transaction (or the consideration received by a majority of the shareholders participating in such transaction if the shareholders were offered a choice of consideration); provided, however, that if the consideration offered for an Ordinary Share in the transaction is not solely the ordinary or common shares of a successor company or a Parent, the Administrator may provide for the consideration to be received upon exercise or payment of the Award, for each share subject to the Award, to be solely ordinary or common shares (as applicable) of the successor company or a Parent equal in Fair Market Value to the per share consideration received by the shareholders participating in the Change in Control Event.

---

**7.3.4 Other Acceleration Rules.** The Administrator may override the provisions of this Section 7.3 as to any Award by express provision in the applicable Award Agreement and may accord any Participant a right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Administrator may approve.

**7.4 Termination of Employment or Services.**

**7.4.1 Events Not Deemed a Termination of Employment.** Unless the Administrator otherwise expressly provides with respect to a particular Award, if a Participant's employment by or service to the Company or an Affiliate terminates but immediately thereafter the Participant continues in the employ of or service to another Affiliate or the Company, as applicable, the Participant shall be deemed to have not had a termination of employment or service for purposes of this Plan and the Participant's Awards. Unless the express policy of the Company or the Administrator otherwise provides, a Participant's employment relationship with the Company or any of its Affiliates shall not be considered terminated solely due to any sick leave, military leave, or any other leave of absence authorized by the Company or any Affiliate or the Administrator; provided that, unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than three months. In the case of any Participant on an approved leave of absence, continued vesting of the Award while on leave from the employ of or service with the Company or any of its Affiliates will be suspended until the Participant returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an Award be exercised after the expiration of the term of the Award set forth in the Award Agreement.

---

**7.4.2 Effect of Change of Affiliate Status.** For purposes of this Plan and any Award, if an entity ceases to be an Affiliate, a termination of employment or service will be deemed to have occurred with respect to each Eligible Person in respect of such Affiliate who does not continue as an Eligible Person in respect of another Affiliate that continues as such after giving effect to the transaction or other event giving rise to the change in status unless the Affiliate that is sold, spun-off or otherwise divested (or its successor or a direct or indirect parent of such Affiliate or successor) assumes the Eligible Person's award(s) in connection with such transaction.

**7.4.3 Administrator Discretion.** Notwithstanding the provisions of Section 5.5, in the event of, or in anticipation of, a termination of employment or service with the Company or any of its Affiliates for any reason, the Administrator may accelerate the vesting and exercisability of all or a portion of the Participant's Award, and/or, subject to the provisions of Sections 5.4.2 and 7.3, extend the exercisability period of the Participant's Option upon such terms as the Administrator determines and expressly sets forth in or by amendment to the Award Agreement.

**7.4.4 Termination of Consulting or Affiliate Services.** If the Participant is an Eligible Person solely by reason of clause (c) of Section 3, the Administrator shall be the sole judge of whether the Participant continues to render services to the Company or any of its Affiliates, unless a written contract or the Award Agreement otherwise provides. If, in these circumstances, the Company or any Affiliate notifies the Participant in writing that a termination of the Participant's services to the Company or any Affiliate has occurred for purposes of this Plan, then (unless the contract or the Award Agreement otherwise expressly provides), the Participant's termination of services with the Company or Affiliate for purposes of this Plan shall be the date specified by the Company or Affiliate in the notice.

## **7.5 Compliance with Laws.**

**7.5.1 General.** This Plan, the granting and vesting of Awards under this Plan, and the offer, issuance and delivery of Ordinary Shares, the acceptance of promissory notes and/or the payment of money under this Plan or under Awards are subject to compliance with all applicable federal and state laws, applicable foreign laws, rules and regulations (including but not limited to state and federal securities laws, and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any person acquiring any securities under this Plan will, if requested by the Company, provide such assurances and representations to the Company as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

**7.5.2 Compliance with Securities Laws.** No Participant shall sell, pledge or otherwise transfer Ordinary Shares acquired pursuant to an Award or any interest in such shares except in accordance with the express terms of this Plan and the applicable Award Agreement. Any attempted transfer in violation of this Section 7.5 shall be void and of no effect. Without in any way limiting the provisions set forth above, no Participant shall make any disposition of all or any portion of Ordinary Shares acquired or to be acquired pursuant to an Award, except in compliance with all applicable federal and state securities laws and unless and until:

- 
- (a) there is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement;
  - (b) such disposition is made in accordance with Rule 144 under the Securities Act; or
  - (c) such Participant notifies the Company of the proposed disposition and furnishes the Company with a statement of the circumstances surrounding the proposed disposition, and, if requested by the Company, furnishes to the Company an opinion of counsel acceptable to the Company's counsel, that such disposition will not require registration under the Securities Act and will be in compliance with all applicable state securities laws.

Notwithstanding anything else herein to the contrary, neither the Company or any Affiliate has any obligation to register the Ordinary Shares or file any registration statement under either federal or state securities laws, nor does the Company or any Affiliate make any representation concerning the likelihood of a public offering of the Ordinary Shares or any other securities of the Company or any Affiliate.

**7.5.3 Share Legends.** All certificates evidencing Ordinary Shares issued or delivered under this Plan shall bear the following legends and/or any other appropriate or required legends under applicable laws:

“OWNERSHIP OF THIS CERTIFICATE, THE SHARES EVIDENCED BY THIS CERTIFICATE AND ANY INTEREST THEREIN ARE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFER UNDER APPLICABLE LAW AND UNDER AGREEMENTS WITH THE COMPANY, INCLUDING RESTRICTIONS ON SALE, ASSIGNMENT, TRANSFER, PLEDGE OR OTHER DISPOSITION.”

“THE SHARES ARE SUBJECT TO THE COMPANY’S RIGHT OF FIRST REFUSAL AND CALL RIGHTS TO REPURCHASE THE SHARES UNDER THE COMPANY’S SHARE INCENTIVE PLAN AND AGREEMENTS WITH THE COMPANY THEREUNDER.”

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD FOLLOWING THE EFFECTIVE DATE OF A REGISTRATION STATEMENT OF THE COMPANY FILED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“ACT”), AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE COMPANY. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.”

---

“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE ACT, NOR HAVE THEY BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. NO TRANSFER OF SUCH SECURITIES WILL BE PERMITTED UNLESS A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO SUCH TRANSFER, THE TRANSFER IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR IN THE OPINION OF COUNSEL TO THE COMPANY, REGISTRATION UNDER THE ACT IS UNNECESSARY IN ORDER FOR SUCH TRANSFER TO COMPLY WITH THE ACT AND WITH ANY OTHER APPLICABLE SECURITIES LAWS.”

**7.5.4 Confidential Information.** Any financial or other information relating to the Company obtained by Participants in connection with or as a result of this Plan or their Awards shall be treated as confidential.

**7.6 Tax Withholding.** Upon any exercise, vesting, or payment of any Award or upon the disposition of Ordinary Shares acquired pursuant to the exercise of an Incentive Stock Option prior to satisfaction of the holding period requirements of Section 422 of the Code, the Company or any of its Affiliates shall have the right at its option to:

- (a) require the Participant (or the Participant’s Personal Representative or Beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Company or Affiliate may be required to withhold with respect to such Award event or payment;
- (b) deduct from any amount otherwise payable (in respect of an Award or otherwise) in cash to the Participant (or the Participant’s Personal Representative or Beneficiary, as the case may be) the minimum amount of any taxes which the Company or Affiliate may be required to withhold with respect to such Award event or payment; or
- (c) reduce the number of Ordinary Shares to be delivered by (or otherwise reacquire shares held by the Participant) the appropriate number of Ordinary Shares, valued at their then Fair Market Value, to satisfy the minimum withholding obligation.

---

In any case where a tax is required to be withheld (including taxes in the PRC where applicable) in connection with the delivery of Ordinary Shares under this Plan (including the sale of Ordinary Shares as may be required to comply with foreign exchange rules in the PRC for Participants resident in the PRC), the Administrator may in its sole discretion (subject to Section 7.5) grant (either at the time of the Award or thereafter) to the Participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, to have the Company reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares, valued in a consistent manner at their Fair Market Value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law. The Company may, with the Administrator's approval, accept one or more promissory notes from any Eligible Person in connection with taxes required to be withheld upon the exercise, vesting or payment of any Award under this Plan; provided that any such note shall be subject to terms and conditions established by the Administrator and the requirements of applicable law. Any such note need not otherwise comply with the provisions of Section 5.3.3.

**7.7 *Plan and Award Amendments, Termination and Suspension.***

**7.7.1 Board Authorization.** The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No Awards may be granted during any period that the Board suspends this Plan.

**7.7.2 Shareholder Approval.** To the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the Code or other applicable tax law, rules or regulations, to preserve the intended tax consequences of this Plan, or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to shareholder approval.

**7.7.3 Amendments to Awards.** Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on Awards to Participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a Participant, and (subject to the requirements of Sections 2.2 and 7.7.4) may make other changes to the terms and conditions of Awards.

**7.7.4 Limitations on Amendments to Plan and Awards.** No amendment, suspension or termination of this Plan or amendment of any outstanding Award shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant or obligations of the Company under any Award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7.3 shall not be deemed to constitute changes or amendments for purposes of this Section 7.7.

---

**7.8 Privileges of Share Ownership.** Except as otherwise expressly authorized by the Administrator, a Participant will not be entitled to any privilege of share ownership as to any Ordinary Shares not actually delivered to and held of record by the Participant, as evidenced by entry of the Participant in the register of members of the Company as the registered holder of such Ordinary Shares. Except as expressly required by Section 7.3.1, no adjustment will be made for dividends or other rights as a shareholder for which a record date is prior to such date of delivery.

**7.9 Share-Based Awards in Substitution for Awards Granted by Other Company.** Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee share options, share appreciation rights, restricted shares or other share-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Company or one of its Affiliates, in connection with a distribution, merger, amalgamation or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Company or one of its Affiliates, directly or indirectly, of all or a substantial part of the shares or assets of the employing entity. The Awards so granted need not comply with other specific terms of this Plan, provided the Awards reflect only adjustments giving effect to the assumption or substitution consistent with the conversion applicable to the Ordinary Shares in the transaction and any change in the issuer of the security. Any shares that are delivered and any Awards that are granted by, or become obligations of, the Company, as a result of the assumption by the Company of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company or one of its Affiliates in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.

**7.10 Effective Date of the Plan.** This Plan is effective upon the Effective Date, subject to approval by the shareholders of the Company within twelve months after the date the Board approves this Plan.

**7.11 Term of the Plan.** Unless earlier terminated by the Board, this Plan will terminate at the close of business on the day before the 10<sup>th</sup> anniversary of the Effective Date. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional Awards may be granted under this Plan, but previously granted Awards (and the authority of the Administrator with respect thereto, including the authority to amend such Awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

**7.12 Governing Law/Severability.**

**7.12.1 Choice of Law.** This Plan, the Awards, all documents evidencing Awards and all other related documents will be governed by, and construed in accordance with, the laws of the Cayman Islands.

**7.12.2 Severability.** If it is determined that any provision of this Plan or an Award Agreement is invalid and unenforceable, the remaining provisions of this Plan and/or the Award Agreement, as applicable, will continue in effect provided that the essential economic terms of this Plan and the Award can still be enforced.

---

**7.13 Captions.** Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings will not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

**7.14 Non-Exclusivity of Plan.** Nothing in this Plan will limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Ordinary Shares, under any other plan or authority.

**7.15 No Restriction on Corporate Powers.** The existence of this Plan, the Award Agreements, and the Awards granted hereunder, shall not limit, affect or restrict in any way the right or power of the Board or the shareholders of the Company to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the Company's or any Affiliate's capital structure or its business; (b) any merger, amalgamation, consolidation or change in the ownership of the Company or any Affiliate; (c) any issue of bonds, debentures, capital, preferred or prior preference shares ahead of or affecting the Company's authorized shares or the rights thereof; (d) any dissolution or liquidation of the Company or any Affiliate; (e) any sale or transfer of all or any part of the Company or any Affiliate's assets or business; or (f) any other corporate act or proceeding by the Company or any Affiliate. No Participant, Beneficiary or any other person shall have any claim under any Award or Award Agreement against any member of the Board or the Administrator, or the Company or any employees, officers or agents of the Company or any Affiliate, as a result of any such action.

**7.16 Other Company Compensation or Benefit Programs.** Payments and other benefits received by a Participant under an Award made pursuant to this Plan shall not be deemed a part of a Participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Affiliate, except where the Administrator or the Board expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans or arrangements of the Company or any Affiliate.

**7.17 Clawback Policy.** The Awards granted under this Plan are subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment, repurchase or forfeiture of Awards or any Ordinary Shares or other cash or property received with respect to the Awards (including any value received from a disposition of the shares acquired upon payment of the Awards).

**7.18 Electronic Records.** In this Plan and the Award Agreements, (i) "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record; (ii) any requirements as to execution or signature can be satisfied in the form of an electronic signature as defined in the Electronic Transactions Law; (iii) any requirements as to delivery include delivery in the form of an Electronic Record; and (iv) sections 8 and 19(3) of the Electronic Transactions Law shall not apply. "Electronic Transactions Law" means the Electronic Transactions Law (2003 Revision) of the Cayman Islands, and "Electronic Record" has the same meaning as in the Electronic Transactions Law.

## **8. DEFINITIONS.**

---

“**Administrator**” has the meaning given to such term in Section 2.1.

“**Affiliate**” means (a) any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the determination, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, or (b) any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the determination, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“**Award**” means an award of any Option authorized by and granted under this Plan.

“**Award Agreement**” means any writing, approved by the Administrator, setting forth the terms of an Award that has been duly authorized and approved.

“**Award Date**” means the date upon which the Administrator took the action granting an Award or such later date as the Administrator designates as the Award Date at the time of the grant of the Award.

“**Beneficiary**” means the person, persons, trust or trusts designated by a Participant, or, in the absence of a designation, entitled by will or the laws of descent and distribution, to receive the benefits specified in the Award Agreement and under this Plan if the Participant dies, and means the Participant’s executor or administrator if no other Beneficiary is designated and able to act under the circumstances.

“**Board**” means the Board of Directors of the Company.

“**Cause**” with respect to a Participant means (unless otherwise expressly provided in the applicable Award Agreement, or another applicable contract with the Participant that defines such term for purposes of determining the effect that a “for cause” termination has on the Participant’s Awards) a termination of employment or service based upon a finding by the Company or any of its Affiliates, acting in good faith and based on its reasonable belief at the time, that the Participant:

- (a) has been negligent in the discharge of his or her duties to the Company or any Affiliate, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;
- (b) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information;
- (c) has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Company or any of its Affiliates; or has been convicted of, or pled guilty or nolo contendere to, a felony or misdemeanor (other than minor traffic violations or similar offenses);

- 
- (d) has materially breached any of the provisions of any agreement with the Company or any of its Affiliates;
  - (e) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Company or any of its Affiliates; or
  - (f) has improperly induced a vendor or customer to break or terminate any contract with the Company or any of its Affiliates or induced a principal for whom the Company or any Affiliate acts as agent to terminate such agency relationship.

A termination for Cause shall be deemed to occur (subject to reinstatement upon a contrary final determination by the Administrator) on the date on which the Company or any Affiliate first delivers written notice to the Participant of a finding of termination for Cause.

“**Change in Control Event**” means any of the following:

- (a) Approval by shareholders of the Company (or, if no shareholder approval is required, by the Board alone) of the complete dissolution or liquidation of the Company, other than in the context of a Business Combination that does not constitute a Change in Control Event under paragraph (c) below;
- (b) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a “**Person**”)) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (1) the then-outstanding Ordinary Shares of the Company (the “**Outstanding Company Ordinary Shares**”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “**Outstanding Company Voting Securities**”); provided, however, that, for purposes of this paragraph (b), the following acquisitions shall not constitute a Change in Control Event; (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate or a successor, (D) any acquisition by any entity pursuant to a Business Combination, (E) any acquisition by a Person described in and satisfying the conditions of Rule 13d-1(b) promulgated under the Exchange Act, or (F) any acquisition by a Person who is the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the Outstanding Company Ordinary Shares and/or the Outstanding Company Voting Securities on the Effective Date (or an affiliate, heir, descendant, or related party of or to such Person);

- 
- (c) Consummation of a reorganization, amalgamation, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any other entity a majority of whose outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company (a “**Subsidiary**”), a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or shares of another entity by the Company or any of its Subsidiaries (each, a “**Business Combination**”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Ordinary Shares and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding ordinary or common shares and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets directly or through one or more subsidiaries (a “**Parent**”), and (2) no Person (excluding any individual or entity described in clauses (C), (E) or (F) of paragraph (b) above) beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, more than 50% of, respectively, the then-outstanding ordinary or common shares of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of 50% existed prior to the Business Combination;

provided, however, that a transaction shall not constitute a Change in Control Event if it is in connection with the underwritten public offering of the Company’s securities.

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended from time to time.

“**Company**” means Futu Holdings Limited/富途控股有限公司, an exempted company incorporated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and its successors.

“**Effective Date**” means October 31, 2014, being the date upon which the Board originally approved this Plan.

“**Eligible Person**” has the meaning given to such term in Section 3 of this Plan.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended from time to time.

“**Fair Market Value**,” for purposes of this Plan and unless otherwise determined or provided by the Administrator in the circumstances, means as follows:

- (a) If the Ordinary Shares are listed or admitted to trade on the New York Stock Exchange or other national securities exchange (the “**Exchange**”), the Fair Market Value shall equal the closing price of an Ordinary Share as reported on the composite tape for securities on the Exchange for the date in question, or, if no sales of Ordinary Shares were made on the Exchange on that date, the closing price of an Ordinary Share as reported on said composite tape for the next preceding day on which sales of Ordinary Shares were made on the Exchange. The Administrator may, however, provide with respect to one or more Awards that the Fair Market Value shall equal the closing price of an Ordinary Share as reported on the composite tape for securities listed on the Exchange on the last trading day preceding the date in question or the average of the high and low trading prices of an Ordinary Share as reported on the composite tape for securities listed on the Exchange for the date in question or the most recent trading day.

- 
- (b) If the Ordinary Shares are not listed or admitted to trade on a national securities exchange, the Fair Market Value shall be the value as reasonably determined by the Administrator for purposes of the Award in the circumstances (with the expectation being that, in the case of a valuation as of a transaction in which Ordinary Shares or similar securities are being sold or exchanged, such determination by the Administrator will be principally based on the value of the consideration received by the holders of the securities sold or exchanged in such transaction).

The Administrator also may adopt a different methodology for determining Fair Market Value with respect to one or more Awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular Award(s) (for example, and without limitation, the Administrator may provide that Fair Market Value for purposes of one or more Awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

Any determination as to Fair Market Value made pursuant to this Plan shall be made without regard to any restriction other than a restriction which, by its terms, will never lapse, and shall be conclusive and binding on all persons with respect to Awards granted under this Plan.

**“Incentive Stock Option”** means an Option that is designated and intended as an “incentive stock option” within the meaning of Section 422 of the Code, the award of which contains such provisions (including but not limited to the receipt of shareholder approval of this Plan, if the award is made prior to such approval) and is made under such circumstances and to such persons as may be necessary to comply with that section.

**“Nonqualified Option”** means an Option that is not an “incentive stock option” within the meaning of Section 422 of the Code and includes any Option designated or intended as a Nonqualified Option and any Option designated or intended as an Incentive Stock Option that fails to meet the applicable legal requirements thereof.

**“Option”** means an option to purchase Ordinary Shares granted under Section 5 of this Plan. The Administrator will designate any Option granted to an employee of the Company or an Affiliate as a Nonqualified Option or an Incentive Stock Option and may also designate any Option as an Early Exercise Option.

**“Ordinary Shares”** means the Company’s Ordinary Shares, par value US\$0.005 per share, and such other securities or property as may become the subject of Awards, or become subject to Awards, pursuant to an adjustment made under Section 7.3.1 of this Plan.

**“Participant”** means an Eligible Person who has been granted and holds an Award under this Plan.

**“Personal Representative”** means the person or persons who, upon the disability or incompetence of a Participant, have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan by virtue of having become the legal representative of the Participant.

---

“**Plan**” means this Futu Holdings Limited / 富途控股有限公司 Share Incentive Plan, as it may hereafter be amended from time to time.

“**Public Offering Date**” means the date the Ordinary Shares are first registered under the Exchange Act and listed or quoted on a recognized national securities exchange.

“**Securities Act**” means the U.S. Securities Act of 1933, as amended from time to time.

“**Severance Date**” with respect to a particular Participant means, unless otherwise provided in the applicable Award Agreement:

- (a) if the Participant is an Eligible Person under clause (a) of Section 3 and the Participant’s employment by the Company or any of its Affiliates terminates (regardless of the reason), the last day that the Participant is actually employed by the Company or such Affiliate (unless, immediately following such termination of employment, the Participant is a member of the Board or, by express written agreement with the Company or any of its Affiliates, continues to provide other services to the Company or any Affiliate as an Eligible Person under clause (c) of Section 3, in which case the Participant’s Severance Date shall not be the date of such termination of employment but shall be determined in accordance with clause (b) or (c) below, as applicable, in connection with the termination of the Participant’s other services);
- (b) if the Participant is not an Eligible Person under clause (a) of Section 3 but is an Eligible Person under clause (b) thereof, and the Participant ceases to be a member of the Board (regardless of the reason), the last day that the Participant is actually a member of the Board (unless, immediately following such termination, the Participant is an employee of the Company or any of its Affiliates or, by express written agreement with the Company or any of its Affiliates, continues to provide other services to the Company or any Affiliate as an Eligible Person under clause (c) of Section 3, in which case the Participant’s Severance Date shall not be the date of such termination but shall be determined in accordance with clause (a) above or (c) below, as applicable, in connection with the termination of the Participant’s employment or other services);
- (c) if the Participant is not an Eligible Person under clause (a) or clause (b) of Section 3 but is an Eligible Person under clause (c) thereof, and the Participant ceases to provide services to the Company or any of its Affiliates as determined in accordance with Section 7.4.4 (regardless of the reason), the last day that the Participant actually provides services to the Company or such Affiliate as an Eligible Person under clause (c) of Section 3 (unless, immediately following such termination, the Participant is an employee of the Company or any of its Affiliates or is a member of the Board, in which case the Participant’s Severance Date shall not be the date of such termination of services but shall be determined in accordance with clause (a) or (b) above, as applicable, in connection with the termination of the Participant’s employment or membership on the Board).

---

**“Total Disability”** means a “total and permanent disability” within the meaning of Section 22(e)(3) of the Code and, with respect to Awards other than Incentive Stock Options, such other disabilities, infirmities, afflictions, or conditions as the Administrator may include.

## INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made as of \_\_\_\_\_, 2018 by and between Futu Holdings Limited, an exempted company incorporated and existing under the laws of the Cayman Islands (the "Company"), and \_\_\_\_\_ (Passport/PRC ID Card No.: \_\_\_\_\_) (the "Indemnitee").

WHEREAS, the Indemnitee has agreed to serve as a director or officer of the Company and in such capacity will render valuable services to the Company; and

WHEREAS, in order to induce and encourage highly experienced and capable persons such as the Indemnitee to render valuable services to the Company, the board of directors of the Company (the "Board") has determined that this Agreement is not only reasonable and prudent, but necessary to promote and ensure the best interests of the Company and its shareholders;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and other good and valuable consideration, including, without limitation, the service of the Indemnitee, the receipt of which hereby is acknowledged, and in order to induce the Indemnitee to render valuable services the Company, the Company and the Indemnitee hereby agree as follows:

**1. Definitions.** As used in this Agreement:

(a) "Change in Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar or successor schedule or form) promulgated under the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred (irrespective of the applicability of the initial clause of this definition) if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act, but excluding any trustee or other fiduciary holding securities pursuant to an employee benefit or welfare plan or employee share plan of the Company or any subsidiary or affiliate of the Company, or any entity organized, appointed, established or holding securities of the Company with voting power for or pursuant to the terms of any such plan) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the Continuing Directors (as defined below) in office immediately prior to such person's attaining such interest; (ii) the Company is a party to a merger, consolidation, scheme of arrangement, sale of assets or other reorganization, or a proxy contest, as a consequence of which Continuing Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of the Company (or any successor entity) thereafter; or (iii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of the Company (including for this purpose any new director whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) (such directors being referred to herein as "Continuing Directors") cease for any reason to constitute at least a majority of the Board of the Company.

---

(b) “Disinterested Director” with respect to any request by the Indemnitee for indemnification or advancement of expenses hereunder shall mean a director of the Company who neither is nor was a party to the Proceeding (as defined below) in respect of which indemnification or advancement is being sought by the Indemnitee.

(c) The term “Expenses” shall mean, without limitation, expenses of Proceedings, including attorneys’ fees, disbursements and retainers, accounting and witness fees, expenses related to preparation for service as a witness and to service as a witness, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals, amounts paid in settlement of a Proceeding by or on behalf of the Indemnitee, costs of attachment or similar bonds, any expenses of attempting to establish or establishing a right to indemnification or advancement of expenses, under this Agreement, the Company’s Memorandum of Association and Articles of Association as currently in effect (the “Articles”), applicable law or otherwise, and reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which the Indemnitee is not otherwise compensated by the Company or any third party. The term “Expenses” shall not include the amount of judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually levied against or sustained by the Indemnitee to the extent sustained after final adjudication.

(d) The term “Independent Legal Counsel” shall mean any firm of attorneys reasonably selected by the Board of the Company, so long as such firm has not represented the Company, the Company’s subsidiaries or affiliates, the Indemnitee, any entity controlled by the Indemnitee, or any party adverse to the Company, within the preceding five (5) years. Notwithstanding the foregoing, the term “Independent Legal Counsel” shall not include any person who, under applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee’s right to indemnification or advancement of expenses under this Agreement, the Company’s Articles, applicable law or otherwise.

(e) The term “Proceeding” shall mean any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, or other proceeding (including, without limitation, an appeal therefrom), formal or informal, whether brought in the name of the Company or otherwise, whether of a civil, criminal, administrative or investigative nature, and whether by, in or involving a court or an administrative, other governmental or private entity or body (including, without limitation, an investigation by the Company or its Board), by reason of (i) the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, whether or not the Indemnitee is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement is to be provided under this Agreement, (ii) any actual or alleged act or omission or neglect or breach of duty, including, without limitation, any actual or alleged error or misstatement or misleading statement, which the Indemnitee commits or suffers while acting in any such capacity, or (iii) the Indemnitee attempting to establish or establishing a right to indemnification or advancement of expenses pursuant to this Agreement, the Company’s Articles, applicable law or otherwise.

---

(f) The phrase “servicing at the request of the Company as an agent of another enterprise” or any similar terminology shall mean, unless the context otherwise requires, serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic. The phrase “serving at the request of the Company” shall include, without limitation, any service as a director/an executive officer of the Company which imposes duties on, or involves services by, such director/executive officer with respect to the Company or any of the Company’s subsidiaries, affiliates, employee benefit or welfare plans, such plan’s participants or beneficiaries or any other enterprise, foreign or domestic. In the event that the Indemnitee shall be a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, 50% or more of the ordinary shares, combined voting power or total equity interest of which is owned by the Company or any subsidiary or affiliate thereof, then it shall be presumed conclusively that the Indemnitee is so acting at the request of the Company.

2. Services by the Indemnitee. The Indemnitee agrees to serve as a director or officer of the Company under the terms of the Indemnitee’s agreement with the Company for so long as the Indemnitee is duly elected or appointed or until such time as the Indemnitee tenders a resignation in writing or is removed from the Indemnitee’s position; provided, however, that the Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or other obligation imposed by operation of law).

3. Proceedings by or in the Right of the Company. The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Company; except that no indemnification under this section shall be made in respect of any claim, issue or matter as to which such person shall have been adjudicated by final judgment by a court of competent jurisdiction to be liable to the Company for willful misconduct in the performance of his/her duty to the Company, unless and only to the extent that the court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such amounts which such other court shall deem proper.

4. Proceeding Other Than a Proceeding by or in the Right of the Company. The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company), by reason of the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with such a Proceeding, to the fullest extent permitted by applicable law; provided, however, that any settlement of a Proceeding must be approved in advance in writing by the Company (which approval shall not be unreasonably withheld).

---

**5. Indemnification for Costs, Charges and Expenses of Witness or Successful Party.** Notwithstanding any other provision of this Agreement (except as set forth in subparagraph 9(a) hereof), and without a requirement for determination as required by Paragraph 8 hereof, to the extent that the Indemnitee (a) has prepared to serve or has served as a witness in any Proceeding in any way relating to (i) the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans or such plan's participants or beneficiaries or (ii) anything done or not done by the Indemnitee as a director or officer of the Company or in connection with serving at the request of the Company as an agent of another enterprise, or (b) has been successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, the Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee in connection therewith to the fullest extent permitted by applicable law.

**6. Partial Indemnification.** If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in the investigation, defense, appeal or settlement of any Proceeding, but not, however, for the total amount of the Indemnitee's Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, then the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses, judgments, fines, interest or penalties or excise taxes to which the Indemnitee is entitled.

**7. Advancement of Expenses.** The Expenses incurred by the Indemnitee in any Proceeding shall be paid promptly by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnitee to the fullest extent permitted by applicable law; provided, however, that the Indemnitee shall set forth in such request reasonable evidence that such Expenses have been incurred by the Indemnitee in connection with such Proceeding, a statement that such Expenses do not relate to any matter described in subparagraph 9(a) of this Agreement, and an undertaking in writing to repay any advances if it is ultimately determined as provided in subparagraph 8(b) of this Agreement that the Indemnitee is not entitled to indemnification under this Agreement.

**8. Indemnification Procedure; Determination of Right to Indemnification.**

(a) Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim for indemnification or advancement of Expenses in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof in writing. The omission to so notify the Company will not relieve the Company from any liability which the Company may have to the Indemnitee under this Agreement unless the Company shall have lost significant substantive or procedural rights with respect to the defense of any Proceeding as a result of such omission to so notify.

---

(b) The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by applicable law, for indemnification pursuant to this Agreement and shall be absolutely entitled to such indemnification, unless a determination is made that the Indemnitee has not met such standards by a court of competent jurisdiction.

(c) If a claim for indemnification or advancement of Expenses under this Agreement is not paid by the Company within thirty (30) days after receipt by the Company of written notice thereof, the rights provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. Such judicial proceeding shall be made de novo. The burden of proving that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the directors or shareholders of the Company or Independent Legal Counsel to have made a determination prior to the commencement of such action that indemnification or advancement of Expenses is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, if any, nor an actual determination by the directors or shareholders of the Company or Independent Legal Counsel that the Indemnitee has not met the applicable standard of conduct shall be a defense to an action by the Indemnitee or create a presumption for the purpose of such an action that the Indemnitee has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself (i) create a presumption that the Indemnitee did not act in good faith and in a manner which he reasonably believed to be in the best interests of the Company and/or its shareholders, and, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful or (ii) otherwise adversely affect the rights of the Indemnitee to indemnification or advancement of Expenses under this Agreement, except as may be provided herein.

(d) If a court of competent jurisdiction shall determine that the Indemnitee is entitled to any indemnification or advancement of Expenses hereunder, the Company shall pay all Expenses actually and reasonably incurred by the Indemnitee in connection with such adjudication (including, but not limited to, any appellate proceedings).

(e) With respect to any Proceeding for which indemnification or advancement of Expenses is requested, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, the Company may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than as provided below. The Company shall not settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ his/her own counsel in any Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a proceeding, in each of which cases the fees and expenses of the Indemnitee's counsel shall be advanced by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee.

---

**9. Limitations on Indemnification.** No payments pursuant to this Agreement shall be made by the Company:

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to (i) Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under applicable law or (ii) Expenses incurred by the Indemnitee in connection with preparing to serve or serving, prior to a Change in Control, as a witness in cooperation with any party or entity who or which has threatened or commenced any action or proceeding against the Company, or any director, officer, employee, trustee, agent, representative, subsidiary, parent corporation or affiliate of the Company, but such indemnification or advancement of Expenses in each such case may be provided by the Company if the Board finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Act or similar provisions of any foreign or United States federal, state or local statute or regulation;

(d) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, for which the Indemnitee is indemnified by the Company otherwise than pursuant to this Agreement;

(e) To indemnify the Indemnitee for any Expenses (including without limitation any Expenses relating to a Proceeding attempting to enforce this Agreement), judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, on account of the Indemnitee's conduct if such conduct shall be finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct, including, without limitation, breach of the duty of loyalty; or

(f) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful. In this respect, the Company and the Indemnitee have been advised that the Securities and Exchange Commission takes the position that indemnification for liabilities arising under securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication;

---

(g) To indemnify the Indemnitee in connection with Indemnitee's personal tax matter; or

(h) To indemnify the Indemnitee with respect to any claim related to any dispute or breach arising under any contract or similar obligation between the Company or any of its subsidiaries or affiliates and such Indemnitee.

**10. Continuation of Indemnification.** All agreements and obligations of the Company contained herein shall continue during the period that the Indemnitee is a director or officer of the Company (or is or was serving at the request of the Company as an agent of another enterprise, foreign or domestic) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director or officer of the Company or serving in any other capacity referred to in this Paragraph 10.

**11. Indemnification Hereunder Not Exclusive.** The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which the Indemnitee may be entitled under the Company's Articles, any agreement, vote of shareholders or vote of Disinterested Directors, provisions of applicable law, or otherwise, both as to action or omission in the Indemnitee's official capacity and as to action or omission in another capacity on behalf of the Company while holding such office.

**12. Successors and Assigns.**

(a) This Agreement shall be binding upon the Indemnitee, and shall inure to the benefit of, the Indemnitee and the Indemnitee's heirs, executors, administrators and assigns, whether or not the Indemnitee has ceased to be a director or officer, and the Company and its successors and assigns. Upon the sale of all or substantially all of the business, assets or share capital of the Company to, or upon the merger of the Company into or with, any corporation, partnership, joint venture, trust or other person, this Agreement shall inure to the benefit of and be binding upon both the Indemnitee and such purchaser or successor person. Subject to the foregoing, this Agreement may not be assigned by either party without the prior written consent of the other party hereto.

(b) If the Indemnitee is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify the Indemnitee's estate and the Indemnitee's spouse, heirs, executors, administrators and assigns against, and the Company shall, and does hereby agree to assume, any and all Expenses actually and reasonably incurred by or for the Indemnitee or the Indemnitee's estate, in connection with the investigation, defense, appeal or settlement of any Proceeding. Further, when requested in writing by the spouse of the Indemnitee, and/or the Indemnitee's heirs, executors, administrators and assigns, the Company shall provide appropriate evidence of the Company's agreement set out herein to indemnify the Indemnitee against and to itself assume such Expenses.

**13. Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

---

**14. Severability.** Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision thereof shall be held to be invalid, unlawful or unenforceable for any reason, such invalidity, unlawfulness or unenforceability shall not affect the validity, unlawfulness or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnitee with the broadest possible indemnification permitted under applicable law. The Company's inability, pursuant to a court order or decision, to perform its obligations under this Agreement shall not constitute a breach of this Agreement.

**15. Savings Clause.** If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify the Indemnitee as to any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are incurred with respect to any Proceeding to the fullest extent permitted by any (a) applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or (b) applicable law.

**16. Interpretation; Governing Law.** This Agreement shall be construed as a whole and in accordance with its fair meaning and any ambiguities shall not be construed for or against either party. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the Cayman Islands without regard to the conflict of laws principles thereof.

**17. Amendments.** No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Company's Articles, or by other agreements, including directors' and officers' liability insurance policies, of the Company.

**18. Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

**19. Notices.** Any notice required to be given under this Agreement shall be directed to Mr. Arthur Yu Chen, the Chief Financial Officer of the Company, at 11/F, Bangkok Bank Building, No. 18 Bonham Strand W, Sheung Wan, Hong Kong S.A.R., People's Republic of China and to the Indemnitee at  
or to such other address as either shall designate to the other in writing.

*[The remainder of this page is intentionally left blank.]*

---

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

**FUTU HOLDINGS LIMITED**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**INDEMNITEE**

By: \_\_\_\_\_  
Name: \_\_\_\_\_

*[Signature Page to Indemnification Agreement]*

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of \_\_\_\_\_, 2018 by and between Futu Holdings Limited, an exempted company incorporated and existing under the laws of the Cayman Islands (the "Company") and \_\_\_\_\_ (Passport/PRC ID Card No.: \_\_\_\_\_) (the "Executive").

### RECITALS

WHEREAS, the Company desires to employ the Executive and to assure itself of the services of the Executive during the term of Employment (as defined below) and under the terms and conditions of the Agreement;

WHEREAS, the Executive desires to be employed by the Company during the term of Employment and under the terms and conditions of the Agreement;

### AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the Company and the Executive agree as follows:

#### 1. EMPLOYMENT

The Company hereby agrees to employ the Executive and the Executive hereby accepts such employment, on the terms and conditions hereinafter set forth (the "Employment").

#### 2. TERM

Subject to the terms and conditions of the Agreement, the initial term of the Employment shall be \_\_\_\_\_ years, commencing on \_\_\_\_\_, 2018 (the "Effective Date") and ending on \_\_\_\_\_, (the "Initial Term"), unless terminated earlier pursuant to the terms of the Agreement. Upon expiration of the Initial Term of the Employment, the Employment shall be automatically extended for successive periods of \_\_\_\_\_ months each (each, an "Extension Period") unless either party shall have given 60 days advance written notice to the other party, in the manner set forth in Section 19 below, prior to the end of the Initial Term or the Extension Period in question, as applicable, that the term of this Agreement that is in effect at the time such written notice is given is not to be extended or further extended, as the case may be (the period during which this Agreement is effective being referred to hereafter as the "Term").

#### 3. POSITION AND DUTIES

- (a) During the Term, the Executive shall serve as \_\_\_\_\_ of the Company or in such other position or positions with a level of duties and responsibilities consistent with the foregoing with the Company and/or its subsidiaries and affiliates as the Board of Directors of the Company (the "Board") may specify from time to time and shall have the duties, responsibilities and obligations customarily assigned to individuals serving in the position or positions in which the Executive serves hereunder and as assigned by the Board, or with the Board's authorization, by the Company's Chief Executive Officer.

- 
- (b) The Executive agrees to serve without additional compensation, if elected or appointed thereto, as a director of the Company or any subsidiaries or affiliated entity of the Company (collectively, the “Group”) and as a member of any committees of the board of directors of any such entity, provided that the Executive is indemnified for serving in any and all such capacities on a basis no less favorable than is currently provided to any other director of any member of the Group.
  - (c) The Executive agrees to devote all of his/her working time and efforts to the performance of his/her duties for the Company and to faithfully and diligently serve the Company in accordance with the Agreement and the guidelines, policies and procedures of the Company approved from time to time by the Board.

4. **NO BREACH OF CONTRACT**

The Executive hereby represents to the Company that: (i) the execution and delivery of the Agreement by the Executive and the performance by the Executive of the Executive’s duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or by which the Executive is otherwise bound, except that the Executive does not make any representation with respect to agreements required to be entered into by and between the Executive and any member of the Group pursuant to the applicable law of the jurisdiction in which the Executive is based, if any; (ii) that the Executive is not in possession of any information (including, without limitation, confidential information and trade secrets) the knowledge of which would prevent the Executive from freely entering into the Agreement and carrying out his/her duties hereunder; and (iii) that the Executive is not bound by any confidentiality, trade secret or similar agreement with any person or entity other than any member of the Group.

5. **LOCATION**

The Executive will be based in \_\_\_\_\_, \_\_\_\_\_ or any other location as requested by the Company during the Term.

6. **COMPENSATION AND BENEFITS**

- (a) Cash Compensation. As compensation for the performance by the Executive of his/her obligations hereunder, during the Term, the Company shall pay the Executive cash compensation (inclusive of the statutory benefit contributions that the Company is required to set aside for the Executive under applicable law) pursuant to Schedule A hereto, subject to annual review and adjustment by the Board or any committee designated by the Board.

- 
- (b) Equity Incentives. During the Term, the Executive shall be eligible to participate, at a level comparable to similarly situated executives of the Company, in such long-term compensation arrangements as may be authorized from time to time by the Board, including any share incentive plan the Company may adopt from time to time in its sole discretion.
  - (c) Benefits. During the Term, the Executive shall be entitled to participate in all of the employee benefit plans and arrangements made available by the Company to its similarly situated executives, including, but not limited to, any retirement plan, medical insurance plan and travel/holiday policy, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements.

## 7. TERMINATION OF THE AGREEMENT

The Employment may be terminated as follows:

- (a) Death. The Employment shall terminate upon the Executive's death.
- (b) Disability. The Employment shall terminate if the Executive has a disability, including any physical or mental impairment which, as reasonably determined by the Board, renders the Executive unable to perform the essential functions of his/her position at the Company, even with reasonable accommodation that does not impose an undue burden on the Company, for more than 180 days in any 12-month period, unless a longer period is required by applicable law, in which case that longer period shall apply.
- (c) Cause. The Company may terminate the Executive's employment hereunder for Cause. The occurrence of any of the following, as reasonably determined by the Company, shall be a reason for Cause, provided that, if the Company determines that the circumstances constituting Cause are curable, then such circumstances shall not constitute Cause unless and until the Executive has been informed by the Company of the existence of Cause and given an opportunity of ten business days to cure, and such Cause remains uncured at the end of such ten-day period:
  - (1) continued failure by the Executive to satisfactorily perform his/her duties;
  - (2) willful misconduct or gross negligence by the Executive in the performance of his/her duties hereunder, including insubordination;
  - (3) the Executive's conviction or entry of a guilty or *nolo contendere* plea of any felony or any misdemeanor involving moral turpitude;
  - (4) the Executive's commission of any act involving dishonesty that results in material financial, reputational or other harm, monetary or otherwise, to any member of the Group, including but not limited to an act constituting misappropriation or embezzlement of the property of any member of the Group as determined in good faith by the Board; or

- 
- (5) any material breach by the Executive of this Agreement.
- (d) Good Reason. The Executive may terminate his/her employment hereunder for “Good Reason” upon the occurrence, without the written consent of the Company, of an event constituting a material breach of this Agreement by the Company that has not been fully cured within ten business days after written notice thereof has been given by the Executive to the Company setting forth in sufficient detail the conduct or activities the Executive believes constitute grounds for Good Reason, including but not limited to:
- (1) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within 20 business days of the date such compensation is due; or
  - (2) any material breach by the Company of this Agreement.
- (e) Without Cause by the Company; Without Good Reason by the Executive. The Company may terminate the Executive’s employment hereunder at any time without Cause upon 60-day prior written notice to the Executive. The Executive may terminate the Executive’s employment voluntarily for any reason or no reason at any time by giving 60-day prior written notice to the Company.
- (f) Notice of Termination. Any termination of the Executive’s employment under the Agreement shall be communicated by written notice of termination (“Notice of Termination”) from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of the Agreement relied upon in effecting the termination.
- (g) Date of Termination. The “Date of Termination” shall mean (i) the date set forth in the Notice of Termination, or (ii) if the Executive’s employment is terminated by the Executive’s death, the date of his/her death.
- (h) Compensation upon Termination.
- (1) Death. If the Executive’s employment is terminated by reason of the Executive’s death, the Company shall have no further obligations to the Executive under this Agreement and the Executive’s benefits shall be determined under the Company’s retirement, insurance and other benefit and compensation plans or programs then in effect in accordance with the terms of such plans and programs.

- 
- (2) By Company without Cause or by the Executive for Good Reason. If the Executive's employment is terminated by the Company other than for Cause or by the Executive for Good Reason, the Company shall (i) continue to pay and otherwise provide to the Executive, during any notice period, all compensation, base salary and previously earned but unpaid incentive compensation, if any, and shall continue to allow the Executive to participate in any benefit plans in accordance with the terms of such plans during such notice period; and (ii) pay to the Executive, in lieu of benefits under any severance plan or policy of the Company, any such amount as may be agreed between the Company and the Executive.
- (3) By Company for Cause or by the Executive other than for Good Reason. If the Executive's employment shall be terminated by the Company for Cause or by the Executive other than for Good Reason, the Company shall pay the Executive his/her base salary at the rate in effect at the time Notice of Termination is given through the Date of Termination, and the Company shall have no additional obligations to the Executive under this Agreement.
- (i) Return of Company Property. The Executive agrees that following the termination of the Executive's employment for any reason, or at any time prior to the Executive's termination upon the request of the Company, he/she shall return all property of the Group that is then in or thereafter comes into his/her possession, including, but not limited to, any Confidential Information (as defined below) or Intellectual Property (as defined below), or any other documents, contracts, agreements, plans, photographs, projections, books, notes, records, electronically stored data and all copies, excerpts or summaries of the foregoing, as well as any automobile or other materials or equipment supplied by the Group to the Executive, if any.
- (j) Requirement for a Release. Notwithstanding the foregoing, the Company's obligations to pay or provide any benefits shall (1) cease as of the date the Executive breaches any of the provisions of Sections 8, 9 and 11 hereof, and (2) be conditioned on the Executive signing the Company's customary release of claims in favor of the Group and the expiration of any revocation period provided for in such release.

## 8. CONFIDENTIALITY AND NONDISCLOSURE

- (a) Confidentiality and Non-Disclosure.
- (1) The Executive acknowledges and agrees that: (A) the Executive holds a position of trust and confidence with the Company and that his/her employment by the Company will require that the Executive have access to and knowledge of valuable and sensitive information, material, and devices relating to the Company and/or its business, activities, products, services, users, clients and vendors, including, but not limited to, the following, regardless of the form in which the same is accessed, maintained or stored: the identity of the Company's actual and prospective users and clients and, as applicable, their representatives; prior, current or future research or development activities of the Company; the products and services provided or offered by the Company to users and clients or potential users and clients and the manner in which such services are performed or to be performed; the product and/or service needs of actual or prospective users and clients; pricing and cost information; information concerning the development, engineering, design, specifications, acquisition or disposition of products and/or services of the Company; user base personal data, programs, software and source codes, licensing information, personnel information, advertising client information, vendor information, marketing plans and techniques, forecasts, and other trade secrets ("Confidential Information"); and (B) the direct and indirect disclosure of any such Confidential Information would place the Company at a competitive disadvantage and would do damage, monetary or otherwise, to the Company's business.

- 
- (2) During the Term and at all times thereafter, the Executive shall not, directly or indirectly, whether individually, as a director, stockholder, owner, partner, employee, consultant, principal or agent of any business, or in any other capacity, publish or make known, disclose, furnish, reproduce, make available, or utilize any of the Confidential Information without the prior express written approval of the Company, other than in the proper performance of the duties contemplated herein, unless and until such Confidential Information is or shall become general public knowledge through no fault of the Executive.
  - (3) In the event that the Executive is required by law to disclose any Confidential Information, the Executive agrees to give the Company prompt advance written notice thereof and to provide the Company with reasonable assistance in obtaining an order to protect the Confidential Information from public disclosure.
  - (4) The failure to mark any Confidential Information as confidential shall not affect its status as Confidential Information under this Agreement.
- (c) Third Party Information in the Executive's Possession. The Executive agrees that he/she shall not, during the Term, (i) improperly use or disclose any proprietary information or trade secrets of any former employer or other person or entity with which the Executive has an agreement or duty to keep in confidence information acquired by Executive, if any, or (ii) bring into the premises of Company any document or confidential or proprietary information belonging to such former employer, person or entity unless consented to in writing by such former employer, person or entity. The Executive will indemnify the Company and hold it harmless from and against all claims, liabilities, damages and expenses, including reasonable attorneys' fees and costs of litigation, arising out of or in connection with any violation of the foregoing.

- 
- (d) Third Party Information in the Company's Possession. The Executive recognizes that the Company may have received, and in the future may receive, from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. The Executive agrees that the Executive owes the Company and such third parties, during the Term and thereafter, a duty to hold all such confidential or proprietary information in strict confidence and not to disclose such information to any person or firm, or otherwise use such information, in a manner inconsistent with the limited purposes permitted by the Company's agreement with such third party.

This Section 8 shall survive the termination of the Agreement for any reason. In the event the Executive breaches this Section 8, the Company shall have right to seek remedies permissible under applicable law.

## 9. INTELLECTUAL PROPERTY

- (a) Prior Inventions. The Executive has attached hereto, as Schedule B, a list describing all inventions, ideas, improvements, designs and discoveries, whether or not patentable and whether or not reduced to practice, original works of authorship and trade secrets made or conceived by or belonging to the Executive (whether made solely by the Executive or jointly with others) that (i) were developed by Executive prior to the Executive's employment by the Company (collectively, "Prior Inventions"), (ii) relate to the Company' actual or proposed business, products or research and development, and (iii) are not assigned to the Company hereunder; or, if no such list is attached, the Executive represents that there are no such Prior Inventions. Except to the extent set forth in Schedule B, the Executive hereby acknowledges that, if in the course of his/her service for the Company, the Executive incorporates into a Company product, process or machine a Prior Invention owned by the Executive or in which he/she has an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide right and license (which may be freely transferred by the Company to any other person or entity) to make, have made, modify, use, sell, sublicense and otherwise distribute such Prior Invention as part of or in connection with such product, process or machine.
- (b) Assignment of Intellectual Property. The Executive hereby assigns to the Company or its designees, without further consideration and free and clear of any lien or encumbrance, the Executive's entire right, title and interest (within the United States and all foreign jurisdictions) to any and all inventions, discoveries, improvements, developments, works of authorship, concepts, ideas, plans, specifications, software, formulas, databases, designees, processes and contributions to Confidential Information created, conceived, developed or reduced to practice by the Executive (alone or with others) during the Term which (i) are related to the Company's current or anticipated business, activities, products, or services, (ii) result from any work performed by Executive for the Company, or (iii) are created, conceived, developed or reduced to practice with the use of Company property, including any and all Intellectual Property Rights (as defined below) therein ("Work Product"). Any Work Product which falls within the definition of "work made for hire", as such term is defined in the U.S. Copyright Act, shall be considered a "work made for hire", the copyright in which vests initially and exclusively in the Company. The Executive waives any rights to be attributed as the author of any Work Product and any "droit morale" (moral rights) in Work Product. The Executive agrees to immediately disclose to the Company all Work Product. For purposes of this Agreement, "Intellectual Property" shall mean any patent, copyright, trademark or service mark, trade secret, or any other proprietary rights protection legally available.

- 
- (c) Patent and Copyright Registration. The Executive agrees to execute and deliver any instruments or documents and to do all other things reasonably requested by the Company in order to more fully vest the Company with all ownership rights in the Work Product. If any Work Product is deemed by the Company to be patentable or otherwise registrable, the Executive shall assist the Company (at the Company's expense) in obtaining letters of patent or other applicable registration therein and shall execute all documents and do all things, including testifying (at the Company's expense) as necessary or appropriate to apply for, prosecute, obtain, or enforce any Intellectual Property right relating to any Work Product. Should the Company be unable to secure the Executive's signature on any document deemed necessary to accomplish the foregoing, whether due to the Executive's disability or other reason, the Executive hereby irrevocably designates and appoints the Company and each of its duly authorized officers and agents as the Executive's agent and attorney-in-fact to act for and on the Executive's behalf and stead to take any of the actions required of Executive under the previous sentence, with the same effect as if executed and delivered by the Executive, such appointment being coupled with an interest.

This Section 9 shall survive the termination of the Agreement for any reason. In the event the Executive breaches this Section 9, the Company shall have right to seek remedies permissible under applicable law.

#### 10. **CONFLICTING EMPLOYMENT**

The Executive hereby agrees that, during the Term, he/she will not engage in any other employment, occupation, consulting or other business activity related to the business in which the Company is now involved or becomes involved during the Term, nor will the Executive engage in any other activities that conflict with his/her obligations to the Company without the prior written consent of the Company.

---

## 11. NON-COMPETITION AND NON-SOLICITATION

- (a) Non-Competition. In consideration of the compensation provided to the Executive by the Company hereunder, the adequacy of which is hereby acknowledged by the parties hereto, the Executive agree that during the Term and for a period of one year following the termination of the Employment for whatever reason, the Executive shall not engage in Competition (as defined below) with the Group. For purposes of this Agreement, "Competition" by the Executive shall mean the Executive's engaging in, or otherwise directly or indirectly being employed by or acting as a consultant or lender to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of, or permitting the Executive's name to be used in connection with the activities of, any other business or organization which competes, directly or indirectly, with the Group in the Business; provided, however, it shall not be a violation of this Section 11(a) for the Executive to become the registered or beneficial owner of up to five percent (5%) of any class of the capital stock of a publicly traded corporation in Competition with the Group, provided that the Executive does not otherwise participate in the business of such corporation.

For purposes of this Agreement, "Business" means online brokerage services platform, and any other business which the Group engages in, or is preparing to become engaged in, during the Term.

- (b) Non-Solicitation; Non-Interference. During the Term and for a period of one year following the termination of the Executive's employment for any reason, the Executive agrees that he/she will not, directly or indirectly, for the Executive's benefit or for the benefit of any other person or entity, do any of the following:
- (1) solicit from any client doing business with the Group during the Term business of the same or of a similar nature to the Business;
  - (2) solicit from any known potential client of the Group business of the same or of a similar nature to that which has been the subject of a known written or oral bid, offer or proposal by the Group, or of substantial preparation with a view to making such a bid, proposal or offer;
  - (3) solicit the employment or services of, or hire or engage, any person who is known to be employed or engaged by the Group; or
  - (4) otherwise interfere with the business or accounts of the Group, including, but not limited to, with respect to any relationship or agreement between the Group and any vendor or business partner.

- 
- (c) Injunctive Relief; Indemnity of Company. The Executive agrees that any breach or threatened breach of subsections (a) and (b) of this Section 11 would result in irreparable injury and damage to the Company for which an award of money to the Company would not be an adequate remedy. The Executive therefore also agrees that in the event of said breach or any reasonable threat of breach, the Company shall be entitled to seek an immediate injunction and restraining order to prevent such breach and/or threatened breach and/or continued breach by the Executive and/or any and all persons and/or entities acting for and/or with the Executive. The terms of this paragraph shall not prevent the Company from pursuing any other available remedies for any breach or threatened breach hereof, including, but not limited to, remedies available under this Agreement and the recovery of damages. The Executive and the Company further agree that the provisions of this Section 11 are reasonable. The Executive agrees to indemnify and hold harmless the Company from and against all reasonable expenses (including reasonable fees and disbursements of counsel) which may be incurred by the Company in connection with, or arising out of, any violation of this Agreement by the Executive. This Section 11 shall survive the termination of the Agreement for any reason.

## **12. WITHHOLDING TAXES**

Notwithstanding anything else herein to the contrary, the Company may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to the Agreement such national, state, provincial, local or any other income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

## **13. ASSIGNMENT**

The Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer the Agreement or any rights or obligations hereunder; provided, however, that the Company may assign or transfer the Agreement or any rights or obligations hereunder to any member of the Group without such consent. If the Executive should die while any amounts would still be payable to the Executive hereunder if the Executive had continued to live, all such amounts unless otherwise provided herein shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate. The Company will require any and all successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Company had terminated the Executive's employment other than for Cause, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Section 13, "Company" shall mean the Company as herein before defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 13 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

---

**14. SEVERABILITY**

If any provision of the Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of the Agreement are declared to be severable.

**15. ENTIRE AGREEMENT**

The Agreement constitutes the entire agreement and understanding between the Executive and the Company regarding the terms of the Employment and supersedes all prior or contemporaneous oral or written agreements concerning such subject matter. The Executive acknowledges that he/she has not entered into the Agreement in reliance upon any representation, warranty or undertaking which is not set forth in the Agreement.

**16. GOVERNING LAW**

The Agreement shall be governed by and construed in accordance with the law of the State of New York, U.S.A.

**17. AMENDMENT**

The Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to the Agreement, which agreement is executed by both of the parties hereto.

**18. WAIVER**

Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under the Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

**19. NOTICES**

All notices, requests, demands and other communications required or permitted under the Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand, (ii) otherwise delivered against receipt therefor, (iii) sent by a recognized courier with next-day or second-day delivery to the last known address of the other party; or (iv) sent by e-mail with confirmation of receipt.

---

**20. COUNTERPARTS**

The Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. The Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

**21. NO INTERPRETATION AGAINST DRAFTER**

Each party recognizes that the Agreement is a legally binding contract and acknowledges that such party has had the opportunity to consult with legal counsel of choice. In any construction of the terms of the Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such terms.

*[Remainder of the page intentionally left blank.]*

---

IN WITNESS WHEREOF, the Agreement has been executed as of the date first written above.

**COMPANY:**

**Futu Holdings Limited**  
a Cayman Islands exempted company

By: \_\_\_\_\_

Name:

Title:

**EXECUTIVE:**

\_\_\_\_\_  
Name:

Address:

---

**Schedule A**

**Cash Compensation**

	<u>Amount</u>	<u>Pay Period</u>
<b>Base Salary</b>		
<b>Cash Bonus</b>		

---

**Schedule B**

**List of Prior Inventions**

Title

Date

Identifying Number  
or Brief Description

\_\_\_\_\_ No inventions or improvements

\_\_\_\_\_ Additional Sheets Attached

Signature of Executive: \_\_\_\_\_

Print Name of Executive: \_\_\_\_\_

Date: \_\_\_\_\_

**Second Amended and Restated Shareholders' Voting Rights Proxy Agreement**

This Second Amended and Restated Shareholders' Voting Rights Proxy Agreement (the "**Agreement**") is made on September 28, 2018 in Beijing, China by and among the following Parties:

1. Shensi Network Technology (Beijing) Co., Ltd. ("**WFOE**"), a wholly foreign-owned enterprise established and validly existing under the laws of China, with the registered address: 2104-A073, No. 9 West North Fourth Ring Road, Haidian District, Beijing;
2. Each existing shareholder listed in Appendix 1 (collectively referred to as "**Existing Shareholders**"); and
3. Shenzhen Futu Network Technology Co., Ltd. ("**Domestic Company**"), registered at: 9th Floor, Unit 3, Building C, Kexing Science Park, No. 15 Keyuan Road, Middle District of Science and Technology Park, Nanshan District, Shenzhen.

(In this Agreement, the Parties above shall be hereinafter referred to individually as a "**Party**" or collectively as the "**Parties**".)

Whereas:

1. The Existing Shareholders are all current shareholders of the Domestic Company and jointly own 100% equity of the Domestic Company;
2. The Existing Shareholders intend to respectively entrust the WFOE or the individual designated by the WFOE to exercise their voting rights in the Domestic Company, and such individual of the WFOE is willing to accept such entrustment.
3. The Parties intend to sign this Agreement to replace the Amended Shareholders' Voting rights Proxy Agreement signed by the Parties with Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei and Qiu Yuepeng on May 27, 2015.

THEREFORE, the Parties, upon friendly negotiation, hereby agree as follows:

**1. Voting Rights Entrustment**

- 1.1 The Existing Shareholders hereby irrevocably undertake that they will severally execute a proxy letter in the form and substance as of Appendix 2 hereto upon execution of this Agreement whereby severally authorize the WFOE (hereinafter as the "**Proxy**") to exercise, on their behalf, the following rights available to them in their capacity as the Existing Shareholders of the Domestic Company under the articles of association of the Domestic Company (collectively as the "**Proxy Rights**");

- 
- (a) to propose the convening of and to attend the shareholders' meeting as the proxy of the Existing Shareholders in accordance with the articles of association of the Domestic Company;
  - (b) to exercise voting rights, on behalf of the Existing Shareholders on all matters required to be deliberated and resolved by the shareholders' meeting, including without limitation the appointment and election of the directors, and the appointment and removal of other senior executives by the shareholders, of the Domestic Company;
  - (c) to exercise other shareholders' voting rights under the articles of association of the Domestic Company (including any other shareholders' voting rights stipulated upon an amendment to such articles of association).

The premise of the authorization and entrustment above is the WFOE's permission of the authorization and entrustment above. Other than in the case where the WFOE gives the Existing Shareholders a written notice requesting the replacement of the Proxy, in which event the Existing Shareholders shall immediately appoint such other Proxy as then designated by the WFOE to exercise the foregoing Proxy Rights and such new authorization and entrustment shall supersede, immediately upon its grant, the original authorization and entrustment, the Existing Shareholders shall not revoke or release the authorization and entrustment accorded to the Proxy otherwise.

- 1.2 The Proxy shall, acting with care and diligence, lawfully fulfill the entrusted rights and duties within the scope of authorization hereunder; the Existing Shareholders acknowledge, and assume liability for, any legal consequences arising out of the exercise by the Proxy of the Proxy Rights.
- 1.3 The Existing Shareholders hereby acknowledge that the Proxy will not be required to solicit the opinions of the Existing Shareholders when exercising the foregoing Proxy Rights, provided that the Proxy shall promptly inform the Existing Shareholders on an ex-post basis of all resolutions adopted or any proposal for an extraordinary shareholders' meeting made.

## **2. Information Rights**

For the purpose of the exercise of the Proxy Rights hereunder, the Proxy shall have the right to access to information regarding the operations, business, customers, finances, employees and other matters of the Domestic Company and to access relevant documents of the Domestic Company; the Existing Shareholders and the Domestic Company shall provide full cooperation with respect thereto.

---

### **3. Exercise of Proxy Rights**

- 3.1 The Existing Shareholders shall provide full assistance with respect to the exercise by the Proxy of the Proxy Rights, including, where necessary (e.g., to meet the document submission requirements in connection with governmental authority approval, registration and filing), timely executing the shareholders' meeting resolutions adopted by the Proxy or other relevant legal documents.
- 3.2 If at any time during the term hereof, the grant or exercise of the Proxy Rights hereunder cannot be realized for any reason (other than a breach by the Existing Shareholders or the Domestic Company), the Parties shall immediately seek an alternative scheme closest to the unrealizable provisions and shall, when necessary, enter into a supplementary agreement to amend or modify the terms hereof so that the purpose of this Agreement may continue to be achieved.

### **4. Exemption and Compensation**

- 4.1 The Parties acknowledge that in no event shall the WFOE be required to bear any liability or provide any economic or other compensation to the other Parties or to any third party in connection with the exercise of the Proxy Rights hereunder by the WFOE.
- 4.2 The Existing Shareholders and the Domestic Company agree to indemnify and hold harmless the WFOE against any and all losses the WFOE suffers or may suffer as a result of the exercise of the Proxy Rights, including without limitation any losses arising out of any suit, recourse, arbitration or claims brought by any third party against the WFOE or any administrative investigation or sanction by any governmental authorities, unless such losses are caused by any willful misconduct or gross negligence of the Proxy.

### **5. Representations and Warranties**

- 5.1 The Existing Shareholders hereby severally represent and warrant that:
  - 5.1.1 For any Existing Shareholder who is an individual, she/he is an Chinese citizen with full capacity for conduct. She/he has full and independent legal status and capacity with appropriate authorization to execute, deliver and perform this Agreement and may sue or be sued as an independent party.

- 
- 5.1.2 For any Existing Shareholder who is an entity, it is an limited companies duly incorporated and validly existing under applicable laws with independent legal capacity, has full and independent legal status and capacity and proper authorization to execute, deliver and perform this Agreement and may sue or be sued as an independent party.
- 5.1.3 They have full power and authorization to execute and deliver this Agreement and all other documents to be executed by them in connection with the transactions contemplated hereunder as well as full power and authorization to consummate the transactions contemplated hereunder. This Agreement will be lawfully and duly executed and delivered by them and will constitute their legal and binding obligations enforceable against them in accordance with its terms.
- 5.1.4 They are the legal owners of record of the Domestic Company as of the time of effectiveness of this Agreement; other than the rights created under this Agreement and the Equity Interest Pledge Agreement and the Exclusive Option Agreement signed by and among the Existing Shareholders, the Domestic Company and the WFOE, the Proxy Rights are free from any third party rights. Pursuant to this Agreement, the Proxy may fully and completely exercise the Proxy Rights under the then effective articles of association of the Domestic Company.
- 5.2 The WFOE and the Domestic Company hereby severally represent and warrant that:
- 5.2.1 They are each a limited liability company duly registered and lawfully existing under the laws of their place of incorporation with independent legal personality, have full and independent legal status and capacity to execute, deliver and perform this Agreement and may sue or be sued as an independent party.
- 5.2.2 They have full internal corporate power and authorization to execute and deliver this Agreement and all other documents to be executed by them in connection with the transactions contemplated hereunder as well as full power and authorization to consummate the transactions contemplated hereunder.
- 5.3 The Domestic Company further represents and warrants that:
- 5.3.1 The Existing Shareholders are the legal owners of record of the Domestic Company as of the time of effectiveness of this Agreement; other than the rights created under this Agreement and the Equity Interest Pledge Agreement and the Exclusive Option Agreement by and among the Existing Shareholders, the Domestic Company and the WFOE, the Proxy Rights are free from any third party rights. Pursuant to this Agreement, the Proxy may fully and completely exercise the Proxy Rights under the then effective articles of association of the Domestic Company.

---

## 6. Term of Agreement

- 6.1 Subject to the provisions of Article 6.2 and Article 6.3 of this Agreement, this Agreement shall become effective as from the date it is duly executed by the Parties hereto, and, unless terminated early by WFOE, the validity period of this Agreement shall expire until the expiration of the business term of the WFOE (if the WFOE extends the business term, the validity period of this Agreement shall be extended accordingly). Before the expiration of this Agreement, if the WFOE so request, the Parties shall extend the term of this Agreement according to the requirements of the WFOE, and sign a separate agreement or continue to perform this Agreement according to such request of the WFOE, unless terminated early by the Parties by written agreement or in accordance with Article 6.4 hereof.
- 6.2 The Parties to the Agreement shall complete the approval and registration procedures for the extension of the business term within three (3) months before each expiry, so that the term of this Agreement may continue.
- 6.3 If any of the Existing Shareholder transfers all the equity he/she holds in the Domestic Company with the prior written consent of the WFOE, such Party will no longer be a party to this Agreement, but the obligations and commitments of the other Parties under this Agreement will not be therefore adversely affected. If, with the prior written consent of the WFOE, any Existing shareholder transfers all or part of the equity of the Domestic company he/she holds, the Existing Shareholder undertakes to obtain written confirmation from the transferee who agrees to inherit and perform the Existing Shareholders' full liabilities, obligations and commitments under this Agreement.

### 6.4 Term of Agreement

- (a) Termination on Expiry Date. This Agreement shall terminate on the expiry date of the term unless it is extended in accordance with relevant provisions hereof.

- 
- (b) Early Termination. During the term of this Agreement, unless the WFOE commits material misconducts, fraud, other illegal conducts or is bankrupt or dissolved or terminated, the Existing Shareholders or the Domestic Company shall not terminate this Agreement in advance. Should the WFOE be bankrupt or legally dissolved or terminated prior to the expiry date of this Agreement, this Agreement shall terminate automatically. Notwithstanding the foregoing, the WFOE may at any time issue a written notice to other Parties thirty (30) days in advance to terminate this Agreement.
  - (c) Survival. Upon termination of this Agreement, the rights and obligations of the Parties under Article 7 and Article 8 shall survive.

## 7. Confidentiality

- 7.1 Whether this Agreement has been terminated or not, the Parties shall keep confidential all other Parties' trade secrets, proprietary information, customer information and other confidential information (hereinafter referred to as the "**Confidential Information**") that are known to the Parties during the conclusion and performance of this Agreement. Except for the prior written consent of the disclosing party of the Confidential Information or mandatory disclosure to the third party required by the relevant laws, regulations or listing requirements, the receiving party of the Confidential Information shall not disclose any Confidential Information to any other third party. In addition to the purpose related to this Agreement, the party receiving the confidential information may not use or indirectly use any Confidential Information.
- 7.2 The following information is not deemed as Confidential Information:
  - (a) there is documentary evidence proving that any information disclosed has been previously known by the receiving party by legitimate manner;
  - (b) information that enters into the public domain not due to the fault of the receiving party; or
  - (c) information that is legally obtained by the receiving party from other sources after receiving the information.
- 7.3 The Party receiving the information may disclose the Confidential Information to its relevant employee, agent or professional hired, but the Parties receiving such information shall ensure that such personnel comply with the relevant terms and conditions of this Agreement and bear the liabilities arising from violation of relevant terms and conditions of this Agreement.

---

7.4 Notwithstanding any other provisions herein, the validity of this Article shall not be affected by the termination of this Agreement.

## 8. Default Liabilities and Compensation

- 8.1 Default Liabilities. The Parties agree and confirm that if any Party hereto (“**Breaching Party**”) materially breaches any provision hereof, or materially fails to perform or delays in performing any obligation hereunder, it shall constitute a default hereunder (“**Default**”), and any other non-breaching Parties (“**Non-breaching Parties**”) may request the Breaching Party to make rectification or take remedy within a reasonable time limit. Should the Breaching Party still fail to make rectification or take remedy within such reasonable time limit or thirty (30) days after the other Party notifies the Breaching Party in writing and makes the above requests:
- (a) If any Existing Shareholder or the Domestic Company is a Breaching Party, the WFOE has the right to terminate this Agreement and require the Breaching Party to pay damages;
  - (b) If the WFOE is a Breaching Party, the Non-breaching Party has the right to demand damages from the Breaching Party, but under no circumstance the Non-breaching Party has any right to terminate or cancel this Agreement unless otherwise required by the law.
- 8.2 Notwithstanding any other provisions of this Agreement, the validity of this Article shall not be affected by any rescission or termination of this Agreement.
- 8.3 Indemnity. The Existing Shareholders shall fully indemnify the WFOE against any loss, damage, liability and/or cost resulting from any action, claim or other demand made against the WFOE due to or arising out of the performance of this Agreement, and hold the WFOE harmless from any loss and damage caused to the WFOE by any act of the Existing Shareholders or any claim made by any third party due to the act of the Existing Shareholders.

## 9. Applicable Laws and Dispute Resolution

- 9.1 Applicable Laws. The formation, validity, interpretation, performance of, and the resolution of dispute arising out of, this Agreement shall be governed by the laws of the PRC.

- 
- 9.2 **Dispute Resolution.** When a dispute arises between the Parties regarding the interpretation and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiation. If the Parties fail to settle the dispute within thirty (30) days after the receipt of the written notice of the other Party's request, either Party may submit such dispute to China International Economic and Trade Arbitration Commission to be administered in Beijing in accordance with its arbitration rules then in force. The arbitral award shall be final and legally binding upon the Parties.

## **10. Change in Law**

Upon effectiveness of this Agreement, if any central or local legislative or administrative authority in the PRC amends any central or local PRC law, regulation, ordinance or other normative document, including amending, supplementing, repealing, interpreting or publishing implementing methods or rules for any existing law, regulation, ordinance or other normative document (collectively referred to as the "Amendment"), or issuing any new law, regulation, ordinance or other normative document (collectively referred to as "New Regulation"), the following provisions shall apply:

- 10.1 If the Amendment or New Regulation is more favorable to any Party than any applicable law, regulation, ordinance or other normative document then in force on the effective date of this Agreement (and the other Party will not thus be imposed any material adverse effect), then the Parties shall timely apply to relevant authority (if necessary) for obtaining the benefits of such Amendment or New Regulation. The Parties shall make every effort to procure the approval of such application.
- 10.2 If, due to the Amendment or New Regulation, there is any direct or indirect material adverse effect on the economic interests of the WFOE hereunder, and the Parties cannot solve such adverse effect imposed on the economic interests of the WFOE in accordance with the provisions of this Agreement, then after the WFOE notifies the other Parties, the Parties shall timely negotiate to make all requisite amendment to this Agreement to maximally protect the economic interests of the WFOE hereunder.

## **11. Force Majeure**

- 11.1 "**Force Majeure Event**" refers to any event that is beyond the reasonable control of a Party and cannot be prevented with reasonable care of the affected Party, including but not limited to natural disasters, war and riot, provided that, any shortage of credit, capital or finance shall not be regarded as an event beyond the reasonable control of a Party. The affected Party who seeks to be exempt from the performance obligation under this Agreement shall inform the other Party, without delay, of the exemption of obligation and the approaches that shall be taken to complete performance.

---

11.2 When the performance of this Agreement is delayed or hindered by the “Force Majeure” in the preceding definition, the Party affected by the force majeure shall not be liable for any responsibility for this Agreement within the scope of the delay or hindrance. The Party affected by force majeure shall take appropriate measures to reduce or eliminate the effect of the Force Majeure, and should use its best efforts to restore the performance of the obligation delayed or hindered by the Force Majeure. Once the Force Majeure Event is eliminated, each party agrees to use its best efforts to resume the performance of this Agreement.

## **12. Miscellaneous**

- 12.1 Further Assurance. The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement.
- 12.2 Entire Agreement. Except for the amendments, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.
- 12.3 Headings. The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.
- 12.4 Taxes and Expenses. Each Party shall bear any and all taxes and expenses occurring to or levied on it with respect to the execution and performance of this Agreement.
- 12.5 Transfer of Agreement. Without prior written consent of the WFOE, the Existing Shareholders or the Domestic Company may not assign its rights and obligations hereunder to any third party.
- 12.6 Severability. If any provision of this Agreement is invalid or unenforceable due to inconsistency with relevant laws, such provision shall be deemed invalid or unenforceable only to the extent where the relevant laws apply, and will not affect the legal validity of other provisions of this Agreement.

- 
- 12.7 Waiver. Any Party may waive the terms and conditions of this Agreement, provided that such waiver shall only become effective if made in writing and agreed and signed by the Parties. No waiver by a Party of the breach by the other Party in a specific case shall operate as a waiver by such Party of any similar breach by the other Party in other cases.
- 12.8 Amendment and Supplement to the Agreement. The Parties shall amend and supplement this Agreement by a written instrument. Any amendment and supplement will become an integral part of this Agreement after proper execution by the Parties and have same legal effect as this Agreement.
- 12.9 Counterpart. This agreement is written in Chinese, and executed in quadruplicate. Each Party of this Agreement shall hold one copy.
- 12.10 From the effective date of this Agreement, the Amended and Restated Shareholders' Voting Rights Proxy Agreement and its attachments signed on May 27, 2015 by the Parties with Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei and Qiu Yuepeng, are automatically terminated.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

---

IN WITNESS WHEREOF, the following Parties have signed this Second Amended and Restated Shareholders' Voting Rights Proxy Agreement as of the date and address first above written.

Shensi Network Technology (Beijing) Co., Ltd.  
(Seal: /s/ Shensi Network Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

LI Hua  
By: /s/ Li Hua

Shenzhen Futu Network Technology Co., Ltd.  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

LI Lei  
By: /s/ Li Lei

Signature Page of the Second Amended and Restated Voting Rights Proxy Agreement

---

**Appendix 1: Existing Shareholders**

<b>Name</b>	<b>Amount of contribution (ten thousand yuan)</b>	<b>Method of investment contribution</b>	<b>Shareholding ratio</b>
Li Hua	850	cash	85%
Li Lei	150	cash	15%
<b>Total</b>	<b>1,000</b>	cash	<b>100%</b>

---

**Appendix 2**

**Proxy Letter**

THIS PROXY LETTER (this "**Letter**"), executed by Li Hua (ID No.: ) on the date that the Shareholders' Voting Rights Proxy Agreement was signed, is issued in favor of the Shensi Network Technology (Beijing) Co., Ltd. ("**Proxy**") or its representative.

I, Li Hua, hereby grant to the Proxy a general proxy right authorizing the Proxy to exercise, as my agent and in my name, the following rights enjoyed by myself in my capacity as a shareholder of Shenzhen Futu Network Technology Co., Ltd. ("**Domestic Company**"):

- (1) to propose to convene and to attend the shareholders' meeting of the Domestic Company under the articles of association as my agent;
- (2) to exercise voting rights, on behalf of myself on all matters required to be deliberated and resolved by the shareholders' meeting, including without limitation the appointment and election of the directors of the Domestic Company, and the appointment and removal of other senior executives that shall be decided by the shareholders' meeting as my agent;
- (3) to exercise other shareholders' voting rights under the articles of association of the Domestic Company as my agent (including any other shareholders' voting rights stipulated upon an amendment to such articles of association).

I hereby irrevocably confirm that unless Shensi Network Technology (Beijing) Co., Ltd. has issued an instruction requesting the replacement of the Proxy, this Letter shall remain valid until the expiration or early termination of the Shareholders' Voting Rights Proxy Agreement.

IN WITNESS WHEREOF, I hereby issue this Letter.

Name: Li Hua

By: \_\_\_\_\_

Date:

---

**Proxy Letter**

THIS PROXY LETTER (this “**Letter**”), executed by Li Lei (ID No.: ) on the date that the Shareholders’ Voting Rights Proxy Agreement was signed, is issued in favor of the Shensi Network Technology (Beijing) Co., Ltd. (“**Proxy**”) or its representative.

I, Li Lei, hereby grant to the Proxy a general proxy right authorizing the Proxy to exercise, as my agent and in my name, the following rights enjoyed by myself in my capacity as a shareholder of Shenzhen Futu Network Technology Co., Ltd. (“**Domestic Company**”):

- (1) to propose to convene and to attend the shareholders’ meeting of the Domestic Company under the articles of association as my agent;
- (2) to exercise voting rights, on behalf of myself on all matters required to be deliberated and resolved by the shareholders’ meeting, including without limitation the appointment and election of the directors of the Domestic Company, and the appointment and removal of other senior executives that shall be decided by the shareholders’ meeting as my agent;
- (3) to exercise other shareholders’ voting rights under the articles of association of the Domestic Company as my agent (including any other shareholders’ voting rights stipulated upon an amendment to such articles of association).

I hereby irrevocably confirm that unless Shensi Network Technology (Beijing) Co., Ltd. has issued an instruction requesting the replacement of the Proxy, this Letter shall remain valid until the expiration or early termination of the Shareholders’ Voting Rights Proxy Agreement.

IN WITNESS WHEREOF, I hereby issue this Letter.

Name: Li Lei

By: \_\_\_\_\_

Date:

**Second Amended and Restated Business Operation Agreement**

This Second Amended and Restated Business Operation Agreement (“**Agreement**”) is made and entered into in Shenzhen, China on September 28, 2017 by and among the following parties (“**Parties**”):

1. **Shensi Network Technology (Beijing) Co., Ltd.**, a wholly foreign-owned enterprise registered in China at: 2104-A073, No. 9 West North Fourth Ring Road, Haidian District, Beijing (“**WFOE**”);
2. Each existing shareholder listed in Appendix 1 (collectively referred to as the “**Existing Shareholders**”); and
3. **Shenzhen Futu Network Technology Co., Ltd.**, registered at 9th floor, Unit 3, Building C, Kexing Science Park, No. 15 Keyuan Road, Middle District of Science and Technology Park, Nanshan District, Shenzhen (“**Domestic Company**”).

**WHEREAS:**

1. The WFOE is a wholly foreign-owned enterprise established in the People’s Republic of China (hereinafter referred to as the “**PRC**”);
2. The Domestic Company is a domestic limited liability company registered in the PRC;
3. The WFOE and the Domestic Company have established business relationships by signing the Second Amended and Restated Exclusive Technology Consulting and Services Agreement, under which the Domestic Company shall pay the fee to the WFOE. Therefore, the daily business activities of the Domestic Company will impose a substantial impact on its ability of paying the corresponding fee to the WFOE;
4. The Existing Shareholders constitute the total shareholders holding 100% of the equity of the Domestic Company;
5. The Parties intend to sign this Agreement to replace the Amended and Restated Business Operation Agreement signed by the parties with Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei and Qiu Yuepeng on May 27, 2015.

THEREFORE, the Parties to this Agreement, through friendly consultations, have reached the following agreements in accordance with the principle of equality and mutual benefit:

**1. Responsibilities of the Domestic Company and the Existing Shareholders**

In order to secure the Domestic Company’s performance of all agreements signed with the WFOE and all obligations to the WFOE, the Domestic Company and the Existing Shareholders undertake to the WFOE that, unless the prior written consent of the WFOE has obtained, the Domestic Company shall not, and the Existing Shareholders shall not procure the Domestic Company to, enter into any transaction which may material effect on the assets, business, personnel, obligations, rights or business operations of the Domestic Company, including but not limited to the following:

- 
- (1) To carry out any activity beyond the normal scope or inconsistent with the past method of doing business of the Domestic Company;
  - (2) To use, change or abolish the business license of the Domestic Company and other permits necessary for the operation of the Domestic Company in any activity beyond the normal scope of business of the Domestic Company;
  - (3) To provide any loan to any third party or assume any debts beyond the normal scope of business of the Domestic Company;
  - (4) To change or remove any director of the Domestic Company or remove and replace any senior executive of the Domestic Company;
  - (5) To sell or acquire any asset or right, including but not limited to any intellectual property right, to and from any third party;
  - (6) To provide guarantee or any other form of security for any third party by its own assets or intellectual property rights, or set up any other encumbrance over the assets or equity of the Domestic Company;
  - (7) To amend the articles of association or change the business scope and main business of the Domestic Company;
  - (8) To change the normal business procedures of the Domestic Company or amend any important internal rules and regulations of the Domestic Company;
  - (9) To transfer the rights and obligations hereunder to any third party;
  - (10) To make major adjustments to its business model, marketing strategy, business policy or client relationships;
  - (11) To distribute dividends and interest in any form;
  - (12) To operate business in any form other than the main business.

## **2. Operation, Management and Staffing**

- 2.1 The Domestic Company and the Existing Shareholders hereby agree to accept and strictly implement the advice regarding its employment and dismissal of employees, daily operation and management and financial management policies as the WFOE may from time to time provide to it.
- 2.2 The Domestic and the Existing Shareholders hereby agree to elect the candidates nominated by the WFOE as the directors of the Domestic Company in accordance with the procedures set forth in laws, regulations and the articles of association, and procures that the directors so elected will elect the person nominated by the WFOE as the executive director or chairman of the board of the Domestic Company and nominate persons designated by the WFOE as the general manager, chief financial officer and other senior executives of the Domestic Company.

- 
- 2.3 If such directors or senior executives designated by the WFOE leave the WFOE, regardless of whether they resign or are removed by the WFOE, they will simultaneously lose the qualifications to hold any position in the Domestic Company. In this case, the Existing Shareholders will dismiss such person from any position in the Domestic Company, and will elect other persons otherwise designated by the WFOE to hold such position.
  - 2.4 For the purpose of Article 2.3 above, the Domestic Company will take all necessary internal and external corporate procedures to complete such appointment and removal formalities in accordance with the laws, the articles of association and this Agreement.

### **3. Other Agreements**

- 3.1 If any agreement between the WFOE and the Domestic Company is terminated or expires, the WFOE has the right to decide whether to terminate all agreements between the WFOE and the Domestic Company, including but not limited to the Exclusive Technology Consulting and Services Agreement.
- 3.2 As the WFOE and the Domestic Company have established business relationships by signing agreements such as the Exclusive Technology Consulting and Services Agreement, the daily operations of the Domestic Company will have a material impact on its ability of paying the corresponding fee to the Domestic Company. Each Existing Shareholder agrees that any dividend, interest distribution or any other gains or benefits (regardless of its specific form) he or she or it obtained from the Domestic Company as a shareholder shall be paid or transferred free of charge to the WFOE unconditionally, and all documents or actions necessary to achieve such payment or transfer as required by the WFOE shall be provided or taken.
- 3.3 Each of the Existing shareholder undertakes that, regardless of any change to the proportion of equity held by he or she or it in the Domestic Companies in the future, the terms of this Agreement shall be binding on the Existing Shareholders hereto and their respective successors and assignees, and shall apply to all the equity held by the Existing Shareholders in the Domestic Company then.

### **4. Confidentiality**

The Parties agree to keep confidential any confidential materials and information (“**Confidential Information**”) acquired or accessed to. The disclosing party of the materials and information shall clearly inform the Confidential Information in writing when providing such materials and information, and make best efforts to take all reasonable measures to keep it confidential. Without prior written consent of the disclosing party, the other party shall not disclose, give or transfer such Confidential Information (including the receiving party merged with, taken over by, or directly or indirectly under the control of a third party) to any third party. Upon termination of this Agreement, any document, material or software carrying the Confidential Information shall be returned to the original owner or the disclosing party or destroyed as agreed by such original owner or disclosing party including deleting any Confidential Information from any relevant memory device, and the use of such Confidential Information shall be ceased. The Parties shall take necessary measures to disclose the Confidential Information to the staff, agents or professional advisers necessary to know, and procure the staff, agents or professional advisers to comply with the confidentiality obligations under this Agreement. All parties, employees, agents or professional consultants shall sign specific confidentiality agreements for compliance.

---

The above restrictions do not apply to the following circumstances: information has been generally available to the public at the time of disclosure; become the general information available to the public after it has been disclosed, not as a result of any misconduct of any party; information that has been obtained by one party prior to the disclosure instead of directly or indirectly obtained from the other party; in accordance with the legal requirements, the party is obliged to disclose to the relevant government departments, stock exchange agencies, etc., or the party will disclose the above Confidential Information to its direct legal counsel and financial advisers for its normal operation.

The Parties agree that, this Article shall continue to be valid irrespective of the amendment, dissolution or termination of this Agreement.

## **5. Indemnity**

5.1 Unless otherwise agreed, any party shall be deemed to breach this Agreement, where it fails to completely perform or suspend the performance of its obligations under this Agreement and fails to rectify such action upon receipt of the other party's notice within ten (10) days, or its statements or representations are not true. In the event of a breach of this Agreement, without prejudice to the right of the affected party to otherwise require the defaulting party to assume the liability for such breach, the defaulting party shall compensate the affected party for the direct loss, damage, cost, expense, and liabilities or claims incurred in accordance with Chinese laws.

## **6. Effectiveness, Performance and Term**

6.1 This Agreement shall become effective upon the execution by the Parties on the date first written above.

6.2 Unless the WFOE terminates this Agreement in writing in advance, the term of this Agreement shall expire until the expiration of the business term of the WFOE (if the WFOE extends its business term, the term of this Agreement expires upon such extension) and start from the effective date of this Agreement. Before expiration of this Agreement, the Parties shall extend the term of this Agreement at the request of the WFOE, and sign an agreement or continue the performance of this Agreement.

---

## 7. Termination

- 7.1 During the term of this Agreement, if the Domestic Company or the Existing Shareholders terminate this Agreement in advance without any cause, it shall compensate the entire loss suffered by the WFOE and pay the relevant expenses for the services completed.
- 7.2 Upon termination of this Agreement, the rights and obligations of the Parties under Articles 4, Articles 5, Articles 7, Articles 8, Articles 9, and Articles 13 will survive.

## 8. Dispute Resolution

- 8.1 When a dispute arises between the Parties regarding the interpretation and performance of the terms and conditions of this Agreement, the Parties shall first resolve the dispute through friendly negotiation. If the Parties fail to settle the dispute within thirty (30) days after the receipt of the written notice of the other Party's request for initiation of negotiation, either Party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with its Arbitration Rules then in force. The arbitration shall be held in Beijing. The arbitration award shall be final and legally binding upon the Parties.
- 8.2 In addition to disputes between the Parties, the Parties should continue to perform their obligations respectively in accordance with the terms and conditions of this Agreement in good faith.

## 9. Force Majeure

- 9.1 A "**Force Majeure Event**" refers to any event that is beyond the reasonable control of a party and cannot be prevented with reasonable care of the affected Party, including but not limited to acts of government, natural disasters, fire, explosion, windstorm, flooding, earthquake, tide, lightning or war. However, any shortage of credit, capital or financing shall not be regarded as an event beyond the reasonable control of a party. When the performance of this Agreement is delayed or hindered by the "Force Majeure" in the preceding definition, the party affected by the Force Majeure shall not be liable for any responsibility for this Agreement within the scope of the delay or hindrance. The affected party who seeks to be exempted from the performance obligation under this Agreement shall inform the other party, without delay, of the exemption of obligation and the steps that shall have been taken to complete performance.
- 9.2 When the performance of this Agreement is delayed or hindered by the "Force Majeure" in the preceding definition, the Party affected by the force majeure shall not be liable for any responsibility for this Agreement within the scope of the delay or hindrance. The Party affected by force majeure shall take appropriate measures to reduce or eliminate the effect of the Force Majeure, and should use its best efforts to restore the performance of the obligation delayed or hindered by the Force Majeure. Once the Force Majeure Event is eliminated, each party agrees to use its best efforts to resume the performance of this Agreement.

---

**10. Assignment**

Without the WFOE's prior written consent, the Domestic Company and the Existing Shareholders shall not assign the rights and obligations under this Agreement to any third party. WFOE may assign its obligations and rights under this Agreement to its affiliates without the Domestic Company's and the Existing Shareholders' consent, but shall notify the Domestic Company and the Existing Shareholders such transfer.

**11. Severability**

The Parties hereby confirm that this Agreement is a fair and reasonable agreement between the Parties on the basis of equality and mutual benefit. If any provision of this Agreement is invalid or unenforceable due to inconsistency with relevant laws, such provision shall be deemed invalid or unenforceable only to the extent where the relevant laws apply, and will not affect the legal validity of other provisions of this Agreement.

**12. Amendment and Supplement of Agreement**

The Parties shall amend and supplement this Agreement by a written instrument. Any amendment and supplement will become an integral part of this Agreement after proper execution by the Parties and have same legal effect as this Agreement.

**13. Applicable Laws**

The signing, validity, performance and interpretation of this Agreement, and the resolution of disputes hereunder shall be governed and interpreted by the laws of the PRC.

**14. Counterpart**

This Agreement shall be written in Chinese and executed in quadruplicate.

**15. Article 15 Miscellaneous**

The Amended and Restated Business Operation Agreement, signed by all parties and Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei and Qiu Yuepeng on May 27, 2015, automatically terminates on the effective date of this Agreement

*[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

---

The Parties have signed this Agreement on the date set out on the front page.

**Domestic Company:**

**Shensi Network Technology (Beijing) Co., Ltd.**  
(Seal: /s/ Shensi Network Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua \_\_\_\_\_  
Name: LI Hua  
Title: Legal Representative

**LI Hua**  
By: /s/ Li Hua \_\_\_\_\_

**WFOE:**

**Shenzhen Futu Network Technology Co., Ltd.**  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua \_\_\_\_\_  
Name: LI Hua  
Title: Legal Representative

**LI Lei**  
By: /s/ Li Lei \_\_\_\_\_

Signature Page to the Second Amended and Restated Business Operation Agreement

---

**Appendix 1: the Existing Shareholders**

<u>Name of the Existing Shareholder</u>	<u>Contributions (RMB)</u>	<u>The method of investment contribution</u>	<u>Percentage</u>
Li Hua	8,500,000	Cash	85%
Li Lei	1,500,000	Cash	7.15%
Total	10,000,000	Cash	100%

### Second Amended and Restated Equity Interest Pledge Agreement

This Second Amended and Restated Equity Interest Pledge Agreement (“**Agreement**”) is made on [Date] in [Name of City], China by and among the following Parties:

1. Shensi Network Technology (Beijing) Co., Ltd. (“**Pledge**”), a wholly foreign-owned enterprise established and validly existing under the laws of China, with the registered address: 2104-A073, No. 9 West North Fourth Ring Road, Haidian District, Beijing.
2. [Name of VIE Shareholder], ID Number: [ID Card Number] (“**Pledgor**”); and
3. Shenzhen Futu Network Technology Co., Ltd. (“**Domestic Company**”), registered at: 9th Floor, Unit 3, Building C, Kexing Science Park, No. 15 Keyuan Road, Middle District of Science and Technology Park, Nanshan District, Shenzhen.

#### Whereas,

- (1) Pledgor holds % of the Domestic Company’s equity interest, which is currently free of pledge or any other burden of rights.
- (2) The Pledgee is a wholly foreign-owned enterprise registered in China. The Pledgee, the Domestic Company, the Pledgor and related parties signed a series of agreements (collectively referred to as “**Restructuring Agreements**”) listed in Annex I to this Agreement on the same day as the date of signing this Agreement.
- (3) As a guarantee that the Pledgor performs all contractual obligations (as defined below), the Pledgor provides a pledge guarantee to the Pledgee with all the equity owned in the Domestic Company.
- (4) The parties intend to sign this Agreement to replace the Amended and Restated Equity Interest Pledge Agreement signed by the parties on May 27, 2015.

Now therefore, upon mutual discussion and negotiation, the Parties have reached the following agreement:

#### 1. Definition

Unless otherwise provided herein, the terms below shall have the following meanings:

- 1.1 “**Contractual Obligations**” shall mean all obligations, statements, warranties and undertakings of the Pledgor and/or the Domestic Company under the Second Amended and Restated Exclusive Option Agreement, the Second Amended and Restated Shareholders’ Voting Rights Proxy Agreement and the Proxy Letter attached, the Second Amended and Restated Business Operation Agreement and this Agreement.

- 
- 1.2 **“Secured Indebtedness”** shall mean all direct, indirect and consequential losses and loss of foreseeable profits suffered by the Pledgee due to any Event of Default of the Pledgor and/or the Domestic Company, and all expenses borne by the Pledgee in connection with enforcement of the Pledgor’s and/or the Domestic Company’s Contractual Obligations and the Pledge.
  - 1.3 **“Pledge”** shall refer to the term set forth in Article 2.1 of this Agreement.
  - 1.4 **“Equity Interest”** shall refer to all the equity legally held by the Pledgor in the Domestic Company that may be pledged.
  - 1.5 **“Term of Pledge”** shall refer to the term set forth in Article 3.1 of this Agreement.
  - 1.6 **“Event of Default”** shall refer to any of the circumstances set forth in Article 7.1 of this Agreement.
  - 1.7 **“Notice of Default”** shall refer to the notice issued by the Pledgee in accordance with this Agreement declaring an Event of Default.

## **2. The Pledge**

- 2.1 As collateral security for the full and complete performance of the Contractual Obligation by the Pledgor and the Domestic Company, the Pledgor hereby pledges to Pledgee the Equity Interest defined in this Agreement, and the Pledgor is entitled to the right and interest of pledge guarantee (**“Pledge Right”**) and priority of compensation.

## **3. Term of Pledge**

- 3.1 The Pledge shall become effective on such date when the pledge of the Equity Interest contemplated herein is registered with the relevant administration for industry and commerce (the **“AIC”**). The Pledge shall remain effective until all Secured Indebtedness has been fully paid. The Pledgor shall submit filings for registering such Pledge in the AIC agency where the Domestic Company is located within thirty (30) days following the execution of this Agreement in accordance with relevant laws and regulations of China.
- 3.2 During the Term of Pledge, if the Domestic Company or the Pledgor fails to fully perform its Contractual Obligations under all Restructuring Agreements, or the Event of Default under Article 7.1 of this Agreement occurs, the Pledgee has the right to dispose the Pledge according to this Agreement and the provisions of PRC laws and regulations.

## **4. Custody of Records for Equity Interest subject to the Pledge**

- 4.1 During the Term of Pledge set forth in this Agreement, the Pledgor shall sign or procure the Domestic Company to sign the capital contribution certificate, the shareholders’ register, and deliver to the Pledgee’s custody such documents officially signed and the certificate of the Pledge registration from AIC. The Pledgee shall have custody of such documents during the entire Term of Pledge set forth in this Agreement.

- 
- 4.2 The Pledgee has the right to receive all cash and non-cash benefits such as all interests and dividends arising from the Equity Interest from the date this Agreement is signed.
  - 4.3 During the Term of Pledge, if the Pledgor subscribes new registered capital of the Domestic Company or purchases the equity of the Domestic Company held by other parties, such newly acquired equity will automatically become the Equity Interest under this Agreement, and the Pledgor shall complete the procedures required for the Pledge of such newly acquired equity within twenty (20) business days after such subscription or purchase. If the Pledgor fails to complete the relevant procedures in accordance with the foregoing provisions, the Pledgee has the right to immediately enforce the Pledge in accordance with the provisions of this Agreement.

**5. Representations and Warranties of the Pledgor**

- 5.1 Pledgor is the legal owner of the Pledge.
- 5.2 At any time, once the Pledgee exercises the rights of the Pledgee under this Pledge Agreement, there should be no intervention from any other parties.
- 5.3 The Pledgee has the right to dispose and transfer the Pledge in the manner prescribed by this Agreement.
- 5.4 Except the Pledgee, the Pledgor has not placed any other pledge right or any third party right on the equity.

**6. Covenants of the Pledgor**

- 6.1 The Pledgor hereby covenants to the Pledgee, that during the term of this Agreement, the Pledgor shall:
  - 6.1.1 without the prior written consent of the Pledgee, the equity shall not be transferred, and any pledge or other form of security that may affect the rights and interest of the Pledgee shall not be established or permitted to exist;
  - 6.1.2 comply with the provisions of all laws and regulations applicable to the pledge of rights, and within five (5) days upon receipt of any notice, order or recommendation issued or prepared by relevant competent authorities regarding the Pledge, shall present the aforementioned notice, order or recommendation to the Pledgee, and shall comply with the aforementioned notice, order or recommendation or submit objections and representations with respect to the aforementioned matters upon the Pledgee's reasonable request or upon consent of the Pledgee;

- 
- 6.1.3 Promptly notify the Pledgee of any event or notice received by the Pledgor that may have an impact on the Pledgee's rights to the Equity Interest or any portion thereof, as well as any event or notice received by the Pledgor that may have an impact on any guarantee and obligations of the Pledgor, or on the performance of the obligations of the Pledgor arising out of this Agreement.
- 6.2 The Pledgor agrees that the rights acquired by the Pledgee in accordance with this Agreement with respect to the Pledge shall not be interrupted or harmed by the Pledgor or any heirs or representatives of the Pledgor or any other persons through any legal proceedings.
- 6.3 To protect or perfect the security interest granted by this Agreement, the Pledgor hereby undertakes to execute in good faith and to procure other parties who have an interest in the Pledge to execute all certificates, deeds and/or undertakes to perform and to procure other parties who have an interest in the Pledge to perform actions required by the Pledgee, to facilitate the exercise by the Pledgee of its rights and authority granted thereto by this Agreement, and to enter into all relevant documents of amendment regarding certificate of the relevant equity with the Pledgee or designee(s) of the Pledgee (natural/legal persons). The Pledgor undertakes to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are deemed necessary by the Pledgee.
- 6.4 The Pledgor hereby undertakes to comply with and perform all guarantees, promises, agreements, representations and conditions under this Agreement for the benefit of the Pledgee. In the event of failure or partial performance of its guarantees, promises, agreements, representations and conditions, the Pledgor shall indemnify the Pledgee for all losses resulting therefrom.
- 6.5 The Pledgor hereby undertakes that he/she is jointly and severally liable with other shareholders to the Pledgee for all the obligations under this Agreement.
- 6.6 The Pledgor irrevocably agrees that he/she will waive the right of first refusal when the equity transfer arises from exercises of the Pledge by the Pledgee, regarding the Equity Interest that other shareholders of the Domestic Company has pledged to the Pledgee.

## **7. Event of Default**

- 7.1 The following circumstances shall be deemed an Event of Default:
- 7.1.1 The Pledgor or the Domestic Company fails to fully perform his/its Contractual Obligations under all Restructuring Agreements in accordance with the provisions of the Restructuring Agreements;

- 
- 7.1.2 Any representation or warranty made by the Pledgor in Article 5 of this Agreement contains material misrepresentations or errors, and/or the Pledgor violates any of the representations and warranties in Article 5 of this Agreement;
  - 7.1.3 The Pledgor violates the commitments set out in Article 6 of this Agreement;
  - 7.1.4 The Pledgor breaches any provision of this Agreement;
  - 7.1.5 Except as stipulated in Article 6.1.1 of this Agreement, the Pledgor abandons the Equity Interest, or transfers the Equity Interest or disposes it in other ways without the written consent of the Pledgee;
  - 7.1.6 Any of the Pledgor's own loans, guarantees, indemnifications, promises or other debt liabilities to any third party or parties (1) become subject to a demand of early repayment or performance due to default on the part of the Pledgor; or (2) become due but are not capable of being repaid or performed in a timely manner, which lead the Pledgee to believe that the Pledgor's ability to perform his/her obligations under this Agreement has been affected;
  - 7.1.7 the Pledgor cannot repay the general debt or other debts;
  - 7.1.8 The promulgation of applicable laws renders this Agreement illegal or renders it impossible for the Pledgor to continue to perform his/her obligations under this Agreement;
  - 7.1.9 Any approval, license, permit or authorization issued by government agencies that renders this Agreement enforceable, legal and effective is withdrawn, suspended, invalidated or substantively changed;
  - 7.1.10 Adverse changes in properties owned by the Pledgor, which lead the Pledgee to believe that that the Pledgor's ability to perform its obligations under this Agreement has been affected;
  - 7.1.11 The successor or custodian of the Domestic Company may only perform part or refuse to perform the payment obligations under the Exclusive Technology Consulting and Services Agreement;
  - 7.1.12 Any other circumstances occur where the Pledgee may become unable to exercise its right with respect to the Pledge according to the laws and regulations.
- 7.2 Upon notice or discovery of the occurrence of any circumstances or event that may lead to the aforementioned circumstances described in Article 7.1, the Pledgor shall immediately notify the Pledgee in writing accordingly.

---

7.3 Unless an Event of Default set forth in this Article 7.1 has been successfully resolved to the Pledgee's satisfaction, the Pledgee may issue a Notice of Default to the Pledgor in writing at any time after the occurrence of the Event of Default and demand that the Pledgor immediately pays all outstanding payments due under the Restructuring Agreements, or perform all or part of the provision under the Restructuring Agreements. If the Pledgor fails to rectify its default or take necessary remedies in a timely manner within ten (10) days upon issuance of such written notice, the Pledgee has the right to dispose of the Pledge in accordance with this Agreement and the relevant PRC laws and regulations.

#### **8. Exercise of the Pledge**

- 8.1 Prior to the fully performance of the Restructuring Agreements, without the Pledgee's written consent, the Pledgor shall not abandon, transfer or dispose of the Equity Interest in other ways.
- 8.2 The Pledgee shall issue a written Notice of Default to the Pledgor when exercising the Pledge.
- 8.3 Subject to the provisions of Article 7.3, the Pledgee may exercise the right to enforce the Pledge at any time after the issuance of the Notice of Default.
- 8.4 The Pledgee may be repaid in priority out of the proceeds from the conversion, auction or sale of the Equity Interest pledged hereunder in accordance with legal proceedings until satisfying all Secured Indebtedness.
- 8.5 When the Pledgee disposes the pledge according to this Agreement, the Pledgor shall not set obstacles and shall provide necessary assistance to enable the Pledgee to enforce its pledge.
- 8.6 The proceeds obtained by the Pledgee exercising the Pledge shall be dealt with in the following order: First, pay all the costs arising from the disposition of the Equity Interest and the exercise of the rights and powers by the Pledgee (including remuneration of lawyers and agents); Second, pay the taxes and fees payable for the disposal of the Equity Interest; Third, repay the Secured Indebtedness to the Pledgee. If there is any balance after deducting the above amount, the Pledgee shall return such balance to the Pledgor or to other persons who have such right in accordance with relevant laws and regulations or deposit such balance to the notary office where the Pledgee is located (any fee resulting therefrom shall be borne by the Pledgor). The Pledgor shall pay the rest, after the conversion, auctioned or sale of Equity Interest, provided that such proceeds is insufficient for satisfying the Secured Indebtedness.

---

## 9. Default Liabilities and Indemnity

- 9.1 **Default Liabilities.** The Parties agree and confirm that if any Party hereto ("**Breaching Party**") materially breaches any provision hereof, or materially fails to perform or delays in performing any obligation hereunder, it shall constitute a default hereunder ("**Default**"), and any of other non-breaching Parties ("**Non-breaching Parties**") may request the Breaching Party to make rectification or take remedy within a reasonable time limit. Should the Breaching Party still fail to make rectification or take remedy within such reasonable time limit or thirty (30) days after the other Party notifies the Breaching Party in writing and requests for rectification, the Non-breaching Parties may request the Breaching Party to pay damages.
- 9.2 **Indemnity.** The Pledgor shall fully indemnify the Pledgee against any loss, damage, liability and/or cost resulting from any action, claim or other demand made against the Pledgee due to or arising out of the performance of this Agreement, and hold the Pledgee harmless from any loss and damage caused to the Pledgee by any act of the Pledgor or any claim made by any third party due to the act of the Pledgor.

## 10. Assignment

- 10.1 Without the Pledgee's prior written consent, the Pledgor shall not give free of charge or assign his/her rights and obligations under this Agreement.
- 10.2 This Agreement shall be binding on the Pledgor and his/her successors, and shall be valid with respect to the Pledgee and each of its successors and assignees.
- 10.3 The Pledgee may at any time assign all or any of its rights and obligations under the Restructuring Agreements to its designee(s) (natural/legal persons), in which case the assignees shall have the rights and obligations of the Pledgor under this Agreement, as if it were the original party to this Agreement. When the Pledgee assigns the rights and obligations under the Restructuring Agreements, upon the Pledgee's request, the Pledgor shall sign relevant agreements or other documents relating to such assignment.
- 10.4 In the event of a change in the Pledgee due to an assignment, the new parties in relation to such Pledge should re-sign the pledge agreement.

## 11. Termination

Upon the full performance of the Contractual Obligations or full clearance of the Secured Indebtedness, this Agreement shall be terminated (whichever is later).

## 12. Handling Fees and Other Expenses

- 12.1 All fees and out of pocket expenses relating to this Agreement, including but not limited to legal costs, costs of production, stamp tax and any other taxes and fees, shall be borne by the Pledgor. If applicable laws requires that the Pledgee should bear some related taxes and fees, the Pledgor shall fully indemnify the Pledgee such taxes and fees.

- 
- 12.2 In the event that the Pledgor fails to pay any tax or fee payable in accordance with the provisions of this Agreement, or the Pledgee adopts any approach or means of recourse for other cause, the Pledgor shall bear all the expenses in respect thereto (including but not limited to various taxes and fees, commission charges, management fees, legal costs, attorney fees, various insurance fees, etc.)

### 13. Governing Law and Resolution of Disputes

- 13.1 Applicable Laws. The formation, validity, interpretation, performance of, and the resolution of dispute arising out of, this Agreement shall be governed by the PRC laws.
- 13.2 Dispute Resolution. When a dispute arises between the Parties regarding the interpretation and performance of the terms and conditions of this Agreement, the Parties shall first resolve the dispute through friendly negotiation. If the Parties fail to settle the dispute within thirty (30) days after the receipt of the written notice of the other Party's request, either Party may submit such dispute to China International Economic and Trade Arbitration Commission to be administered in Beijing in accordance with its arbitration rules then in force. The arbitral award shall be final and legally binding upon the Parties.

### 14. Change in Law

Upon effectiveness of this Agreement, if any central or local legislative or administrative authority in the PRC amends any central or local PRC law, regulation, ordinance or other normative document, including amending, supplementing, repealing, interpreting or publishing implementing methods or rules for any existing law, regulation, ordinance or other normative document (collectively referred to as the "**Amendment**"), or issuing any new law, regulation, ordinance or other normative document (collectively referred to as "**New Regulation**"), the following provisions shall apply:

- 14.1 If the Amendment or New Regulation is more favorable to any Party than any applicable law, regulation, ordinance or other normative document then in force on the effective date of this Agreement (and the other Party will not thus be imposed any material adverse effect), then the Parties shall timely apply to relevant authority (if necessary) for obtaining the benefits of such Amendment or New Regulation. The Parties shall make every effort to procure the approval of such application.
- 14.2 If, due to the Amendment or New Regulation, there is any direct or indirect material adverse effect on the economic interests of the Pledgee hereunder, and the Parties cannot solve such adverse effect imposed on the economic interests of the Pledgee in accordance with the provisions of this Agreement, then after the Pledgee notifies the other Parties, the Parties shall timely negotiate to make all requisite amendment to this Agreement to maximally protect the economic interests of the Pledgee hereunder.

---

## 15. Force Majeure

- 15.1 **“Force Majeure Event”** refers to any event that is beyond the reasonable control of a Party and cannot be prevented with reasonable care of the affected Party, including but not limited to natural disasters, war and riot, provided that, any shortage of credit, capital or finance shall not be regarded as an event beyond the reasonable control of a Party. In the event that the occurrence of a Force Majeure Event delays or prevents the performance of this Agreement, the affected Party shall not be liable for any obligations hereunder only for such delayed or prevented performance. The affected Party who seeks to be exempt from the performance obligation under this Agreement or any provision hereof shall inform the other Party, without delay, of the exemption of obligation and the approaches that shall be taken to complete performance.
- 15.2 The Party affected by Force Majeure Event shall not assume any liability hereunder, provided that only when the affected Party has made all reasonable efforts to perform this Agreement so that such Party who seeks exemption of obligation may be exempted from performing such obligation and only to the extent of the delayed or impeded performance. Once the cause for such exemption of liability is rectified and remedied, each Party agrees to use its best efforts to resume the performance of this Agreement.

## 16. Miscellaneous

- 16.1 Further Assurance. The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement.
- 16.2 Entire Agreement. Except for the amendments, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.
- 16.3 Headings. The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.

- 
- 16.4 Severability. If any provision of this Agreement is invalid or unenforceable due to inconsistency with relevant laws, such provision shall be deemed invalid or unenforceable only to the extent where the relevant laws apply, and will not affect the legal validity of other provisions of this Agreement.
- 16.5 Waiver. Any Party may waive the terms and conditions of this Agreement, provided that such waiver shall only become effective if made in writing and agreed and signed by the Parties. No waiver by a Party of the breach by the other Parties in a specific case shall operate as a waiver by such Party of any similar breach by the other Parties in other cases.
- 16.6 Amendment and Supplement of Agreement. The Parties shall amend and supplement this Agreement by a written instrument. Any amendment and supplement will become an integral part of this Agreement after proper execution by the Parties and have same legal effect as this Agreement.
- 16.7 Counterpart. This Agreement shall be written in Chinese and executed in quadruplicate, with each Party hereto holding one copy, and one for the registration of AIC.
- 16.8 Annexes. The annexes listed in this Agreement are an integral part and are not severable.

From the date of this Agreement be in effective, the Amended and Restated Equity Interest Pledge Agreement signed by the parties on May 27, 2015 is automatically terminated.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

---

IN WITNESS WHEREOF, the following Parties have signed this Agreement as of the date first above written.

Shensi Network Technology (Beijing) Co., Ltd.  
(Seal: /s/ Shensi Network Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

[Name of VIE Shareholder]  
By: /s/ [Name of VIE Shareholder]

Shenzhen Futu Network Technology Co., Ltd.  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

Signature Page to the Amended and Restated Equity Interest Pledge Agreement

---

**The Investment Certificate of Shenzhen Futu Network Technology Co., Ltd.**

It is hereby certified that [Name of VIE Shareholder] (ID number: [ID Card Number]) has paid a total of RMB (with the subscription capital contribution of RMB ) and owns % of the equity of Shenzhen Futu Network Technology Co., Ltd., all of which have been pledged to Shensi Network Technology (Beijing) Co., Ltd.

Shenzhen Futu Network Technology Co., Ltd.  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua

Title: Legal Representative

---

**Annex 1****Restructuring Agreements**

1. The Second Amended and Restated Exclusive Technology Consulting and Services Agreement entered into by and between Shensi Network Technology (Beijing) Co., Ltd. and Shenzhen Futu Network Technology Co., Ltd. on September 28, 2018;
2. The Second Amended and Restated Exclusive Option Agreement entered into by and between Shensi Network Technology (Beijing) Co., Ltd., Shenzhen Futu Network Technology Co., Ltd., Li Hua and Li Lei on September 28, 2018;
3. The Second Amended and Restated Shareholders' Voting Rights Proxy Agreement entered into by and between Shensi Network Technology (Beijing) Co., Ltd., Shenzhen Futu Network Technology Co., Ltd., Li Hua and Li Lei on September 28, 2018;
4. The Second Amended and Restated Equity Interest Pledge Agreement entered into by and between Shensi Network Technology (Beijing) Co., Ltd., Shenzhen Futu Network Technology Co., Ltd. and [Name of VIE Shareholder] on [Date];
5. The Second Amended and Restated Business Operation Agreement entered into by and between Shensi Network Technology (Beijing) Co., Ltd., Shenzhen Futu Network Technology Co., Ltd., Li Hua and Li Lei on September 28, 2018.

**Schedule of Material Differences**

One or more persons signed the second amended and restated equity interest pledge agreement using this form. Pursuant to Instruction ii to Item 601 of Regulation S-K, the Registrant may only file this form as an exhibit with a schedule setting forth the material details in which the executed agreements differ from this form:

<u>No.</u>	<u>Name of VIE Shareholder</u>	<u>Date</u>
1.	LI Hua	September 28, 2018
2.	LI Lei	September 28, 2018

**Second Amended and Restated Exclusive Technology Consulting and Services Agreement**

This Second Amended and Restated Exclusive Technology Consulting and Services Agreement (this “**Agreement**”) is made and entered into by and between the following parties in Beijing, China on September 28, 2018:

1. **Shensi Network Technology (Beijing) Co., Ltd.**, a wholly foreign-owned enterprise registered in China at: 2104-A073, No.9 West North Fourth Ring Road, Haidian District, Beijing (hereinafter as the “**WFOE**”); and
2. **Shenzhen Futu Network Technology Co., Ltd.**, registered at 9th floor, Unit 3, Building C, Kexing Science Park, No.15 Keyuan Road, Middle District of Science and Technology Park, Nanshan District, Shenzhen (hereinafter as the “**Domestic Company**”).

**Whereas:**

- (1) The WFOE is a wholly foreign-owned enterprise established in the People’s Republic of China (hereinafter referred to as the “**PRC**”), and has resources of technology consulting and services;
- (2) The Domestic Company is a limited liability company established in the PRC;
- (3) The WFOE agrees to provide technology consulting and relevant services to the Domestic Company, and the Domestic Company agrees to accept the technology consulting and services provided by the WFOE;
- (4) The Parties intend to sign this Agreement to replace the Amended and Restated Exclusive Technology Consulting and Services Agreement executed on May 27, 2015.

Therefore, through mutual discussion, the Parties have reached the following agreements:

**1. Technology Consulting and Services; Sole and Exclusive Rights and Interests**

- 1.1 The WFOE agrees to provide technology consulting and services (please see Appendix 1 for the specific content thereof) in relation to the financial software development (hereinafter as the “**Target Business**”) to the Domestic Company as the technology consulting and service provider of the Domestic Company in accordance with the terms and conditions set forth herein during the term of this Agreement.
- 1.2 The Domestic Company agrees to accept the technology consulting and services provided by the WFOE. The Domestic Company further agrees that, without prior written consent of the WFOE, during the term of this Agreement, the Domestic Company shall not accept any technology consulting and services identical or similar to such Business provided by any third party.

---

**2. Calculation and Payment of the Technology Consulting and Service Fee (hereinafter referred to as the “Consulting Service Fee”)**

- 2.1 The Parties agree that the Consulting Service Fee under this Agreement shall be determined and paid based on the method set forth in Appendix 2 of this Agreement attached hereto.
- 2.2 The Domestic Company shall pay the WFOE an additional penalty of 1% per day for the amount owed if the Domestic Company fails to pay the Consulting Service Fee and other expenses in accordance with the provisions of this Agreement.
- 2.3 The WFOE may, at its own expense, to assign its employees or qualified public accountants from China or other countries (referred to as the “**Authorized Representative of the WFOE**”) to verify the accounts of the Domestic Company in order to review the calculation method and amount of the Consulting Service Fee. Therefore, the Domestic Company shall provide the documents, accounts, records, data required by the Authorized Representative of the WFOE, so that the Authorized Representative of the WFOE may audit the accounts of the Domestic Company and determine the amount of the Consulting Service Fee. Unless the Authorized Representative of the WFOE has made a material error in the audit, the amount of the Consulting Service Fee shall be based on that determined by the Authorized Representative of the WFOE.
- 2.4 Unless otherwise agreed in writing by the Parties, the Consulting Service Fee paid by the Domestic Company to the WFOE shall not be deducted or offset in any amount (e.g. bank charges, etc.).
- 2.5 In addition, the Domestic Company shall pay to the WFOE the actual expenses incurred by the consultation and services provided by the WFOE under this Agreement, including but not limited to travel expenses, transportation expenses, printing fees and postage, etc.

**3. Responsibilities of the Parties**

- 3.1 Responsibilities of the WFOE. In addition to the responsibilities specified in other provisions of this Agreement, the WFOE shall also assume the following responsibilities:
  - (a) The WFOE shall provide support services to the Domestic Company in an efficient manner, and promptly and seriously response to any request for advice and assistance made by the Domestic Company;
  - (b) The WFOE shall assist the Domestic Company in the preparation of the business plans relating to the Target Business;

- 
- (c) The WFOE shall assist the Domestic Company in planning, designing, developing and conducting the Target Business;
  - (d) The WFOE shall provide competent service personnel to the Domestic Company for the services provided according to this Agreement; and
  - (e) The WFOE shall strictly fulfill the obligations under this Agreement and any other related contracts as a contracting party.
- 3.2 Responsibilities of the Domestic Company. In addition to the responsibilities specified in other provisions of this Agreement, the Domestic Company shall also assume the following responsibilities:
- (a) Without the prior written consent of the WFOE, the Domestic Company shall not accept any identical or similar support services provided by any third party;
  - (b) The Domestic Company shall accept all the support services and all reasonable advice on such support services provided by the WFOE;
  - (c) The Domestic Company shall work out a business plan with the assistance of the WFOE;
  - (d) The Domestic Company shall plan, design, develop, establish and conduct the Target Business with the assistance of the WFOE;
  - (e) The Domestic Company shall provide the WFOE with any technology or other material that the WFOE deems necessary or useful for it to provide the services hereunder, and shall allow the WFOE to enter the facilities that the WFOE deems necessary or useful for it to provide the services hereunder;
  - (f) The Domestic Company shall establish and maintain an independent accounting unit for the Target Business;
  - (g) The Domestic Company shall operate and carry out the Target Business and other business of the Domestic Company in strict compliance with the business plan and the joint decision made by the WFOE and the Domestic Company;
  - (h) If the Domestic Company intends to enter into a contract with any third party, it shall obtain the written consent of the WFOE before signing such contract;
  - (i) The Domestic Company shall provide and manage the Target Business in an effective, prudent and legal manner to maximize the revenue;

- 
- (j) The Domestic Company shall assist the WFOE in, and provide the WFOE with sufficient cooperation on, all affairs required for the WFOE to validly fulfill its duties and obligations hereunder
  - (k) The Domestic Company shall report all communications with the relevant administrations for industry and commerce to the WFOE, and timely provide the WFOE with the photocopies of all documents, permits, approvals and authorizations obtained from relevant administrations for industry and commerce;
  - (l) For the purpose of performing the services hereunder, the Domestic Company shall assist the WFOE in carrying out, establishing and maintaining relationships with other relevant departments and agencies of the PRC government, provincial and local governments and other entities, and assist the WFOE in obtaining all permits, licenses, approvals and authorizations required for such work;
  - (m) The Domestic Company shall assist the WFOE in completing all duty-free importation formalities for the supply of assets, materials and supplies as required for the WFOE to provide services;
  - (n) The Domestic Company shall assist the WFOE in purchasing equipment, materials, supplies, labor services and other services required by the WFOE in the PRC at a competitive price;
  - (o) The Domestic Company shall operate in accordance with all applicable PRC laws and regulations, and complete all necessary formalities relating to the operation;
  - (p) The Domestic Company shall provide the WFOE with the photocopies of relevant PRC laws, regulations, ordinances and rules as well as other relevant material required by the WFOE;
  - (q) The Domestic Company shall strictly fulfill its obligations under this Agreement and any other relevant contract to which it is a party.

#### **4. Representations and Warranties**

4.1 The WFOE hereby represents and warrants as follows:

- (a) The WFOE is a company duly incorporated and validly existing under the PRC laws;
- (b) The WFOE's execution and performance of this Agreement is within its corporate power and scope of business; it has taken all necessary corporate actions and was given proper authorizations and has obtained consents and approvals from third parties and government agencies to execute and perform this Agreement, and such execution and performance of this Agreement does not violate any restrictions in law and contract otherwise binding or having an impact on it.

- 
- (c) Once executed, this Agreement constitutes legal, valid and binding obligations of the WFOE, and can be enforced against the WFOE in accordance with the provisions of this Agreement.

4.2 The Domestic Company hereby represents and warrants as follows:

- (a) The Domestic Company is a company duly incorporated and validly existing under the PRC laws.
- (b) The Domestic Company's execution and performance of this Agreement is within its corporate power and scope of business; it has taken all necessary corporate actions and was given proper authorizations and has obtained consents and approvals from third parties and government agencies to execute and perform this Agreement, and such execution and performance of this Agreement does not violate any restrictions in law and contract otherwise binding or having an impact on it.
- (c) Once executed, this Agreement constitutes legal, valid and binding obligations of the WFOE, and can be enforced against the Domestic Company in accordance with the provisions of this Agreement.

## 5. Confidentiality

- 5.1 The Domestic Company agrees to make efforts to take all reasonable confidentiality measures to keep confidential any confidential materials and information ("**Confidential Information**") known or accessed to through acceptance of the exclusive consulting and services provided by the WFOE. Without prior written consent of the WFOE, the Domestic Company shall not disclose, give or transfer such Confidential Information to any third party. Upon termination of this Agreement, the Domestic Company shall, at the request of the WFOE, return the Confidential Information to the WFOE, or destroy, any document, data or software carrying the Confidential Information, and delete any Confidential Information from any relevant memory device and cease the use of such Confidential Information.
- 5.2 The Parties agree that this Article 5 shall continue to be valid irrespective of the amendment, dissolution or termination of this Agreement.

## 6. Default Liabilities and Indemnity

- 6.1 Default Liabilities. The Parties agree and confirm that if any Party ("**Breaching Party**") materially breaches any provisions hereof, or materially fails to perform or delays in performing any obligation hereunder, it shall constitute a default hereunder ("**Default**"), and the non-breaching Party ("**Non-breaching Party**") may request the Breaching Party to make rectification or take remedy within a reasonable time limit. Should the Breaching Party still fail to make rectification or take remedy within such reasonable time limit or within thirty (30) days after the other Party notifies the Breaching Party in writing and makes the above requests, the Non-breaching Party may request the Breaching Party to pay damages in addition to the rights aforementioned.

---

6.2 Indemnity. The Domestic Company shall fully indemnify the WFOE against any loss, damage, liability and/or cost resulting from any action, claim or other demand made against the WFOE due to or arising out of the content of consulting and services required by the Domestic Company, and hold the WFOE harmless from any loss and damage caused to the WFOE by any act of the Domestic Company or any claim made by any third party due to the act of the Domestic Company.

## **7. Intellectual Property Rights**

7.1 Rights that are generated. Unless otherwise agreed in written by the Parties, any right and interest generated from the performance of this Agreement, including but not limited to the ownership, copyright, patent, trademark, know-how, technology secrets, trade secrets and others, regardless of whether they are independently or cooperatively developed by the WFOE and the Domestic Company, or developed by the Domestic Company based on the original intellectual property rights of the WFOE, shall be the proprietary and exclusive right and interest of the WFOE, who is entitled with the sole and exclusive rights of possession, use, profit and disposal. Unless otherwise agreed in written by the Parties, the Domestic Company shall enter into all necessary documents and take all necessary actions, for the WFOE to become owner of such intellectual property rights. The Domestic Company shall not challenge the WFOE's ownership of all such intellectual property rights and interests. Where the Domestic Company intends to obtain any such intellectual property rights by application for registration or otherwise, it shall obtain the written consent of the WFOE in advance.

## **8. Effectiveness and Term**

8.1 This Agreement is signed and effective on the date first written above.

8.2 Unless this Agreement is terminated in accordance with the terms of this Agreement or the relevant agreements entered into by the Parties, this Agreement shall expire upon expiration of the business term of the WFOE (if the WFOE extends its business term, the term of this Agreement shall extend to such extension), starting from the effective date of this Agreement. Before the expiration of this Agreement, the Parties shall extend the term of this Agreement upon the request of the WFOE, and sign an agreement or continue at the request of the WFOE to perform under this Agreement.

---

## 9. Termination

- 9.1 Termination on Expiry Date. This Agreement shall terminate on the expiry date of the term unless it is extended in accordance with relevant provisions hereof.
- 9.2 Early termination. Should the Domestic Company be bankrupt or legally dissolved and terminated prior to the expiry date of this Agreement, this Agreement shall terminate automatically. Notwithstanding the foregoing, the WFOE may at any time issue a written notice to the Domestic Company thirty (30) days in advance to terminate this Agreement.
- 9.3 Survival. Upon termination of this Agreement, the rights and obligations of the Parties under Article 5 and Article 6 shall survive.

## 10. Applicable Laws and Dispute Resolution

- 10.1 Applicable Laws. The formation, validity, interpretation, performance of, and the resolution of dispute arising out of, this Agreement shall be governed by the PRC laws.
- 10.2 Dispute Resolution. When a dispute arises between the Parties regarding the interpretation and performance of the terms and conditions of this Agreement, the Parties shall first resolve the dispute through friendly negotiation. If the Parties fail to settle the dispute within thirty (30) days after the receipt of the written notice of the other Party's request, either Party may submit such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with its Arbitration Rules then in force. The arbitration shall be held in Beijing. The arbitration award shall be final and legally binding upon the Parties.

## 11. Change in Law

Upon effectiveness of this Agreement, if any central or local legislative or administrative authority in the PRC amends any central or local PRC law, regulation, ordinance or other normative document, including amending, supplementing, repealing, interpreting or publishing implementing methods or rules for any existing law, regulation, ordinance or other normative document (collectively referred to as the "**Amendment**"), or issuing any new law, regulation, ordinance or other normative document (collectively referred to as "**New Regulation**"), the following provisions shall apply:

- 11.1 If the Amendment or New Regulation is more favorable to any Party than any applicable law, regulation, ordinance or other normative document then in force on the effective date of this Agreement (and the other Party will not thus be imposed any material adverse effect), then the Parties shall timely apply to relevant authority (if necessary) for obtaining the benefits of such Amendment or New Regulation. The Parties shall make every effort to procure the approval of such application.

---

11.2 If, due to the Amendment or New Regulation, there is any direct or indirect material adverse effect on the economic interests of the WFOE hereunder, and the Parties cannot solve such adverse effect imposed on the economic interests of the WFOE in accordance with the provisions of this Agreement, then after the WFOE notifies the Domestic Company, the Parties shall timely negotiate to make all requisite amendment to this Agreement to maximally protect the economic interests of the WFOE hereunder.

## 12. Force Majeure

- 12.1 A “**Force Majeure Event**” refers to any event that is beyond the reasonable control of a Party and cannot be prevented with reasonable care of the affected Party, including but not limited to natural disasters, war and riot, provided that, any shortage of credit, capital or finance shall not be regarded as an event beyond the reasonable control of a Party. In the event that the occurrence of a Force Majeure Event delays or prevents the performance of this Agreement, the affected Party shall not be liable for any obligations hereunder only for such delayed or prevented performance. The affected Party who seeks to be exempt from the performance obligation under this Agreement or any provision hereof shall inform the other Party, without delay, of the exemption of obligation and the approaches that shall be taken to complete performance.
- 12.2 The Party affected by Force Majeure Event shall not assume any liability hereunder, provided that only when the affected Party has made all reasonable efforts to perform this Agreement so that such Party who seeks exemption of obligation may be exempted from performing such obligation, and only to the extent of the delayed or impeded performance. Once the cause for such exemption of liability is rectified and remedied, each Party agrees to use its best efforts to resume the performance of this Agreement.

## 13. Miscellaneous

- 13.1 Further Assurance. The Parties agree to promptly execute documents that are reasonably required for the implementation of the provisions and purpose of this Agreement and take further actions that are reasonably required for the implementation of the provisions and purpose of this Agreement.
- 13.2 Entire Agreement. Except for the amendments, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.

- 
- 13.3 Headings. The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.
- 13.4 Taxes and Expenses. Each Party shall bear any and all taxes and expenses occurring to or levied on it with respect to the execution and performance of this Agreement.
- 13.5 Assignment. Without the WFOE's prior written consent, the Domestic Company shall not assign its rights and/or obligations under this Agreement to any third party.
- 13.6 Severability. If any provision of this Agreement is invalid or unenforceable due to inconsistency with relevant laws, such provision shall be deemed invalid or unenforceable only to the extent where the relevant laws apply and will not affect the validity of other provisions of this Agreement.
- 13.7 Waiver. Any Party may waive the terms and conditions of this Agreement, provided that such waiver shall only become effective if made in writing and agreed and signed by the Parties. No waiver by a Party of the breach by the other Party in a specific case shall operate as a waiver by such Party of any similar breach by the other Party in other cases.
- 13.8 Amendment and Supplement to the Agreement. The Parties shall amend and supplement this Agreement by a written instrument. Any amendment and supplement will become an integral part of this Agreement after proper execution by the Parties and have same legal effect as this Agreement.
- 13.9 Counterpart. This Agreement shall be written in Chinese and executed in duplicate, with the WFOE and the Domestic Company each holding one copy.
- 13.10 The Amended and Restated Exclusive Technology Consulting and Services Agreement signed by the WFOE and the Domestic Company on May 27, 2015 automatically terminates on the effective date of this Agreement.

*[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

---

The Parties have signed this Agreement on the date set out on the front page.

**WFOE: Shensi Network Technology (Beijing) Co., Ltd.**  
(Seal: /s/ Shensi Network Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua \_\_\_\_\_  
Name: LI Hua  
Title: Legal Representative

**Domestic Company: Shenzhen Futu Network Technology Co., Ltd.**  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua \_\_\_\_\_  
Name: LI Hua  
Title: Legal Representative

Signature Page to the Second Amended and Restated Exclusive Technology Consulting and Services Agreement

---

### Appendix 1: List of Technology Consulting and Services

WFOE will provide the following technology consulting and services to Domestic Company:

- (1) To research on and develop relevant technologies required for the business of the Domestic Company, including the development, design and making of database software, user interface software and other relevant technologies to be used for relevant business information, and the license of such software and technologies to the Domestic Company for use;
- (2) To provide application and implementation of relevant technologies for the business operation of the Domestic Company, including but not limited to the general design scheme, installation, commissioning and test run of the system;
- (3) To be responsible for the daily maintenance, monitoring, commissioning and trouble-shooting of computers and network software and hardware device (including information database) of the Domestic Company, including the timely input of users' information into the database, or based on other business information as the Domestic Company may from time to time provide, timely update the database, regularly update the user interface, and provide other related technology services;
- (4) To provide consulting services for the procurement of relevant equipment and software and hardware system required for the Domestic Company to carry out online operation, including but not limited to providing consulting advice on the selection, system installation and commissioning of all kinds of tools, software, applications and technology platforms, and the purchase, model, performance and other aspects of all kinds of supporting hardware device and equipment;
- (5) To provide appropriate training and technology support and aid to employees of the Domestic Company, including but not limited to providing appropriate training to the Domestic Company and its employees, including training on customer service or technologies or otherwise; introducing to the Domestic Company and its employee knowledge and experience on the installation, operation and other aspects of the system and equipment, assisting the Domestic Company in solving any problem as may incur during the installation and operation of the system and equipment; providing the Domestic Company with consulting and advice on the application of other online editing platforms and software, and assisting the Domestic Company in preparing and collecting information of various types;
- (6) To give technology consulting and technology answer to any technology question raised by the Domestic Company regarding the network equipment, technology products and software; and
- (7) To provide other technology services and consulting based on the needs of the Domestic Company.

*[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

---

**Appendix 2: Calculation and Payment of the Technology Consulting and Service Fee**

- (1) The Consulting Service Fee payable shall be 100% of the net profit of the Domestic Company. The Domestic Company shall pay the Consulting Service Fee to the WFOE on an annual basis or at the time agreed by the WFOE.
- (2) The WFOE may adjust the standard of Consulting Service Fee at any time according to the quantity and content of such consulting services provided to the Domestic Company, and such adjustment shall be approved by the WFOE. The amount of the service fee shall be determined based on the following factors: (1) Technology difficulty and complexity of the consulting and management services; (2) Time to be spent by the WFOE to provide such technology consulting and management services; and (3) Specific content and commercial value of the technology consulting and management services.
- (3) The Domestic Company shall establish and implement the accounting systems and prepare financial statements in accordance with relevant PRC laws, regulations, accounting rules and accounting principles. At the request of the WFOE, the Domestic Company shall prepare separate financial statements in accordance with the US generally accepting accounting principles or other accounting principles as the WFOE may otherwise require. The Domestic Company shall provide financial statements, operation records, business contracts and financial materials as well as other reports required by the WFOE, of the Domestic Company to the WFOE within 15 days upon ending of each calendar month, so that the WFOE may check and compute the amount of Consulting Service Fee payable to the WFOE by the Domestic Company in accordance with the foregoing provisions. The WFOE may audit all financial statements and other relevant information of the Domestic Company at any time during business hours, provided that it shall give reasonable prior notice to the Domestic Company. If the WFOE has any doubt on the financial materials provided by the Domestic Company, the WFOE may appoint an independent accounting firm with good reputation to audit relevant materials, and the Domestic Company shall cooperate with the same.

*[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

**Second Amended and Restated Exclusive Option Agreement**

This Second Amended and Restated Exclusive Option Agreement (“**Agreement**”) is made and entered into in Beijing, China on September 28, 2018 by and among the following Parties:

1. Shensi Network Technology (Beijing) Co., Ltd. (“**WFOE**”), a wholly foreign-owned enterprise established and validly existing under the laws of China, with the registered address: 2104-A073, No. 9 West North Fourth Ring Road, Haidian District, Beijing;
2. Each existing shareholder listed in Appendix 1 (collectively referred to as the “**Existing Shareholders**”); and
3. Shenzhen Futu Network Technology Co., Ltd. (“**Domestic Company**”), registered at: 9th Floor, Unit 3, Building C, Kexing Science Park, No. 15 Keyuan Road, Middle District of Science and Technology Park, Nanshan District, Shenzhen.

(In this Agreement, the Parties above shall be hereinafter referred to individually as a “**Party**” or collectively as the “**Parties**”.)

Whereas:

- (1) The Existing Shareholders own 100% equity interest in the Domestic Company in total. The equity interest that each Existing Shareholder holds is listed in Appendix 1.
- (2) As the date of signing this Agreement, the WFOE and the Domestic Company entered into the Second Amended and Restated Exclusive Technology Consulting and Services Agreement (“**Exclusive Technology Consulting and Services Agreement**”) and the WFOE and the Existing Shareholders entered into the Second Amended and Restated Equity Interest Pledge Agreement (“**Equity Pledge Agreement**”) and a serial of other agreements on the same day.
- (3) The Parties intend to sign this Agreement to replace the Amended and Restated Exclusive Option Agreement signed by the Parties with Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei, Qiu Yuepeng on May 27, 2015 .

Now therefore, upon mutual discussion and negotiation, the Parties have reached the following agreement:

---

## 1. Sale and purchase of Equity

- 1.1 Grant of Option. The Existing Shareholders hereby irrevocably grant to the WFOE an exclusive and irrevocable option whereby the WFOE shall be entitled to purchase or designate any person or persons (“**Designee**”) to purchase from the Existing Shareholders at any time, to the extent permitted by the PRC laws, all or part of the equity held by the Existing Shareholders in the Domestic Company following the exercise steps determined by the WFOE at its own discretion and per the price set forth in Article 1.3 hereof (“**Call Option**”). No third person other than the WFOE and the Designee may enjoy the Call Option. The Domestic Company hereby agrees that the Existing Shareholders grant such Call Option to the WFOE. For the purpose of this clause and this Agreement, a “person” refers to any individual, corporation, joint venture, partnership, enterprise, trust or unincorporated organization. All Parties agree that there is no limit to the number of times that the WFOE can exercise such Call Option unless it has acquired and held the entire shareholding held by the Existing Shareholders in the Domestic Company.
- 1.2 Transfer. All Parties agree that the Call Option under this Agreement may be transferred, in part or in whole, by the WFOE to a third party designated by the WFOE; each Party hereby agrees in advance, that such third party shall be deemed as a signatory to this Agreement to exercise the Call Option in accordance with the terms of this Agreement and undertake the rights and obligations of the WFOE under this Agreement.
- 1.3 Exercise Steps. Subject to the PRC laws and regulations, the WFOE shall exercise the Call Option by issuing a written notice (“**Equity Purchase Notice**”) to the Existing Shareholders specifying the following matters: (a) the WFOE’s decision on exercise of the Call Option; (b) the identity information of the Designee authorized by the WFOE (in the case where the Designee exercises all or part of the Call Option); (c) the amount of equity (“**Target Equity**”) which the WFOE proposes to purchase from the Existing Shareholders; and (d) the date of purchase/date of transfer of equity.
- 1.4 Purchase Price. Unless applicable laws and regulations require an appraisal, the purchase price of the Target Equity (“**Purchase Price**”) shall be RMB1 or the lowest price permitted by the PRC laws and regulations at the time of transfer of equity. When the WFOE exercises the Call Option, the total Purchase Price payable to the Existing Shareholders shall be disposed of in the manner agreed by the WFOE in writing.

---

1.5 Transfer of the Target Equity. At each exercise of Call Option by the WFOE issuing an Equity Purchase Notice to the Existing Shareholders:

- (a) The Existing Shareholders shall issue written statements waiving any right of first refusal with respect to the Target Equity within five (5) business days;
- (b) The Existing Shareholders shall cause the Domestic Company to promptly convene a shareholders' meeting within five (5) business days, at which a resolution shall be adopted approving the Existing Shareholders' transfer of the Target Equity to the WFOE and/or the Designee;
- (c) The Existing Shareholders shall execute an equity transfer agreement with the WFOE and/or the Designee in accordance with the provisions of this Agreement and the Equity Purchase Notice regarding the Target Equity within five (5) business days;
- (d) The Domestic Company shall modify or cancel the existing capital contribution certificate held by the Existing Shareholders, and issue a new capital contribution certificate to the WFOE and/or the Designee within five (5) business days. The articles of association of the Domestic Company and the register of the shareholders relating to descriptions of the shareholders and the capital contribution shall be modified accordingly, and the corresponding application for change of registration of the Domestic Company shall be submitted to the registration authorities;
- (e) other requisite contracts, agreements or documents, obtain all requisite government approvals and consents, and take all necessary actions, so as to transfer the valid ownership of the Target Equity to the WFOE and/or the Designee free of any security interest and cause the WFOE and/or the Designee to be the registered owner of the Target Equity. For the purpose of this clause and this Agreement, "**Security Interest**" includes guarantees, mortgages, pledges, liens, third-party rights or interests, any share option, right of acquisition, right of first refusal, right of offset, retention of title or other security arrangements, seizure or freezing of the court and others. However, for the sake of clarity, it does not include any Security Interest created from this Agreement or the Equity Pledge Agreement.

---

## 2. Undertakings on Equity

2.1 Undertaking by the Domestic Company. The Domestic Company hereby undertakes that:

- (a) Without prior written consent of the WFOE, it will not supplement, revise or amend the articles of association of the Domestic Company in any form, or increase or decrease its registered capital, or change its registered capital structure in any way;
- (b) It will follow good financial and commercial standards and practices, maintain itself in good standing, and prudently and effectively operate its business and handle affairs;
- (c) Without prior written consent of the WFOE, it will not sell, transfer, mortgage or otherwise dispose any legal or beneficial interests in any assets, business or revenue of the Domestic Company, or allow the creation of any other Security Interests on the foregoing, at any time from the date hereof;
- (d) Without prior written consent of the WFOE, it will not incur, inherit, guarantee or allow the existence of any debt, except for:
  - (i) debts arising from normal or ordinary course of business operations other than by means of loan; and
  - (ii) debts that have been disclosed to the WFOE and obtained written consent from the WFOE;
- (e) It will keep all existing business under normal operation to maintain the asset value of the Domestic Company, and will not commit any act or omission which will affect its operating condition or asset value;
- (f) Without prior written consent of the WFOE, it will not enter into any material contract (including but not limited to any contract with a contractual value of over RMB500,000), other than those entered into in the normal course of business;
- (g) Without prior written consent of the WFOE, it will not provide any loan or credit to any person;
- (h) At the request of the WFOE, it will provide the WFOE with all information on the operational and financial condition of the Domestic Company;
- (i) Without prior written consent of the WFOE, it will not merge or consolidate with any person, or acquire or invest in any person;

- 
- (j) It will inform the WFOE immediately of any pending or threatened lawsuits, arbitration or administrative proceedings relating to assets, business and revenue of the Domestic Company;
  - (k) In order to maintain its ownership over all of its assets, the Domestic Company will sign all necessary or appropriate documents, take all necessary or appropriate actions, bring forward all necessary or appropriate claims, or make all necessary and appropriate defenses against all claims;
  - (l) Without prior written consent of the WFOE, it will not distribute dividends in any form. However, at the request of the WFOE, all distributable profits of the Domestic Company shall be immediately distributed to its shareholders; and
  - (m) At the request of the WFOE, it will appoint any person designated or recognized by the WFOE as the director of the Domestic Company.

2.2 Undertakings by the Existing Shareholders. The Existing Shareholders undertake that:

- (a) Without prior written consent of the WFOE, they will not supplement, revise or amend the articles of association of the Domestic Company in any form, or increase or decrease its registered capital, or change its registered capital structure in any way;
- (b) Without prior written consent of the WFOE, they will not sell, transfer, mortgage, hold in nominal form, or otherwise dispose any ownership, voting right, dividend or beneficial interest in any equity, or allow the creation of any other Security Interests on the foregoing, at any time from the date hereof, except for pledge created on equity of the Domestic Company under the Equity Pledge Agreement;
- (c) Without prior written consent of the WFOE, they will not approve that the Domestic Company merge or consolidate with any person, or acquire or invest in any person;
- (d) Without prior written consent of the WFOE, they will not liquidate or dissolve the Domestic Company;
- (e) Without prior written consent of the WFOE, they will not procure the shareholders' meeting of the Domestic Company to approve the resolution of equity interests and dividends distribution.

- 
- (f) They will inform the WFOE immediately of any pending or threatened lawsuits, arbitration or administrative proceedings relating to the equity they owned; they will procure the shareholders' meeting of the Domestic Company to vote for and approve the transfer of the Target Equity under this Agreement;
  - (g) In order to maintain their ownership over the Target Equity, they will sign all necessary or appropriate documents, proactively take all necessary or appropriate actions, and/or bring forward all necessary or appropriate claims, or make all necessary and appropriate defenses against all claims;
  - (h) At the request of the WFOE, they will appoint any person designated or recognized by the WFOE as the director of the Domestic Company;
  - (i) At the request of the WFOE from time to time, they will transfer their equity to the WFOE or the Designee unconditionally and immediately, and waive the right of first refusal towards such transfer of equity by other Existing Shareholders;
  - (j) They will strictly comply with the provisions of this Agreement and other contracts which are jointly or individually signed by the WFOE, the Existing Shareholders and the Domestic Company, effectively performing the obligations thereunder, and will not commit any act or omission which will affect the validity and enforceability of such contracts;
  - (k) The Existing Shareholders irrevocably undertake to be jointly and severally liable for the obligations hereunder.

### **3. Representations and Warranties of the Existing Shareholders and the Domestic Company**

The Existing Shareholders and the Domestic Company hereby severally represent and warrant the followings to the WFOE on the date hereof and on each date of transfer of equity:

- 3.1 They have the rights and capacity to sign and deliver this Agreement and any equity transfer agreement ("**Transfer Agreement**") to which they are one party and sign for each Target Equity transfer according to this Agreement, and perform their obligations under this Agreement and any Transfer Agreement. Once this Agreement and any Transfer Agreement to which they are one party are signed, this Agreement and such Transfer Agreement will become their legal, valid and binding obligations (including any non-monetary obligation) enforceable against them in accordance with their terms; the terms of such Agreements and the arbitral awards with respect thereto that favors resumption of performance shall be enforceable against them irrespective of unsuitability or excessive expense for performance;

- 
- 3.2 Neither the execution and delivery of this Agreement or any Transfer Agreement nor the performance of their obligations under this Agreement or any Transfer Agreement will: (i) violate any applicable PRC laws; (ii) conflict with their articles of association or other organization documents; (iii) violate or default under any contract or instrument to which they are a party or which binds upon them; (iv) violate any condition to grant and/or maintain the validity of any approval or permit granted to them; or (v) cause any permit or approval granted to them to be suspended, cancelled or imposed with additional conditions;
  - 3.3 The Existing Shareholders have good and merchantable title to all equity of the Domestic Company. The Existing Shareholders set up no Security Interest over such equity, except for the pledge set by the Domestic Company's equity in the Equity Pledge Agreement;
  - 3.4 The Domestic Company has no outstanding debts except (i) those arising from its normal course of business; and (ii) debts that have been disclosed to and approved by the WFOE in writing;
  - 3.5 The Existing Shareholders and the Domestic Company shall comply with all applicable laws and regulations; and
  - 3.6 There is no existing, pending or threatening litigation, arbitration or administrative proceedings relating to equity, assets or other aspects of the Domestic Company.

#### **4. Confidentiality**

The Parties acknowledge and confirm that any oral or written information mutually exchanged in connection with this Agreement shall be Confidential Information. The Parties shall keep confidential all such information, and without written consent of other Parties, they shall not disclose any relevant information to any third party except under the following circumstances: (a) where such information is or will be known by the general public (for reasons other than the unauthorized disclosure to the public by any Party receiving such information); (b) where the disclosure of such information is required by applicable laws or regulations; or (c) where any Party needs to disclose such information to its legal or financial advisor for the purpose of the transaction contemplated herein, and such legal or financial advisor also needs to assume the confidentiality liability similar to that provided in this Article. The breach of confidentiality by the staff of or agency retained by any Party shall be deemed as breach of confidentiality by such Party, and such Party shall assume the liabilities for breach of contract in accordance with this Agreement. This Article shall survive the termination of this Agreement for whatsoever reason.

---

## 5. Effectiveness and Term

This Agreement shall take effect from the date when the Parties sign this Agreement, unless the WFOE terminates this Agreement in advance, the validity period of this Agreement shall expire until the expiration of the business term of the WFOE (if the WFOE extends its business term, it expires until the expiration of such extension period), starting from the effective date of this Agreement. Before the expiration of this Agreement, if the WFOE so request, the Parties shall extend the term of this Agreement according to such request of the WFOE, and sign a separate agreement or continue to perform this Agreement according to the requirements of the WFOE.

## 6. Termination

- 6.1 Termination on Expiry Date. This Agreement shall terminate on the expiry date of the term unless it is extended in accordance with
- 6.2 Early Termination. Should the WFOE be bankrupt or legally dissolved or terminated prior to the expiry date of this Agreement, this Agreement shall terminate automatically. Notwithstanding the foregoing, the WFOE may at any time issue a written notice to other Parties thirty (30) days in advance to terminate this Agreement.
- 6.3 Survival. Upon termination of this Agreement, the rights and obligations of the Parties under Article 4 and Article 7 shall survive.

## 7. Default Liabilities and Indemnity

- 7.1 Default Liabilities. The Parties agree and confirm that if any Party hereto (“**Breaching Party**”) materially breaches any provision hereof, or materially fails to perform or delays in performing any obligation hereunder, it shall constitute a default hereunder (“**Default**”), and any of other non-breaching Parties (“**Non-breaching Parties**”) may request the Breaching Party to make rectification or take remedy within a reasonable time limit. Should the Breaching Party still fail to make rectification or take remedy within such reasonable time limit or thirty (30) days after the other Party notifies the Breaching Party in writing and makes the above requests, the Non-breaching Parties may request the Breaching Party to pay damages.

- 
- 7.2 **Indemnity.** The Existing Shareholders and the Domestic Company shall fully indemnify the WFOE against any loss, damage, liability and/or cost resulting from any action, claim or other demand made against the WFOE due to or arising out of the performance of this Agreement, and hold the WFOE harmless from any loss and damage caused to the WFOE by any act of the Shareholders or the Domestic Company or any claim made by any third party due to the act of the Existing Shareholders or the Domestic Company.

## 8. **Applicable Laws and Dispute Resolution**

- 8.1 **Applicable Laws.** The formation, validity, interpretation, performance of, and the resolution of dispute arising out of, this Agreement shall be governed by the PRC laws.
- 8.2 **Dispute Resolution.** When a dispute arises between the Parties regarding the interpretation and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiation. If the Parties fail to settle the dispute within thirty (30) days after the receipt of the written notice of the other Party's request, either Party may submit such dispute to China International Economic and Trade Arbitration Commission to be administered in Beijing in accordance with its arbitration rules then in force. The arbitral award shall be final and legally binding upon the Parties.

## 9. **Change in Law**

Upon effectiveness of this Agreement, if any central or local legislative or administrative authority in the PRC amends any central or local PRC law, regulation, ordinance or other normative document, including amending, supplementing, repealing, interpreting or publishing implementing methods or rules for any existing law, regulation, ordinance or other normative document (collectively referred to as the "**Amendment**"), or issuing any new law, regulation, ordinance or other normative document (collectively referred to as "**New Regulation**"), the following provisions shall apply:

- 9.1 If the Amendment or New Regulation is more favorable to any Party than any applicable law, regulation, ordinance or other normative document then in force on the effective date of this Agreement (and the other Party will not thus be imposed any material adverse effect), then the Parties shall timely apply to relevant authority (if necessary) for obtaining the benefits of such Amendment or New Regulation. The Parties shall make every effort to procure the approval of such application.

- 
- 9.2 If, due to the Amendment or New Regulation, there is any direct or indirect material adverse effect on the economic interests of the WFOE hereunder, and the Parties cannot solve such adverse effect imposed on the economic interests of the WFOE in accordance with the provisions of this Agreement, then after the WFOE notifies the other Parties, the Parties shall timely negotiate to make all requisite amendment to this Agreement to maximally protect the economic interests of the WFOE hereunder.

#### **10. Force Majeure**

- 10.1 **“Force Majeure Event”** refers to any event that is beyond the reasonable control of a Party and cannot be prevented with reasonable care of the affected Party, including but not limited to natural disasters, war and riot, provided that, any shortage of credit, capital or finance shall not be regarded as an event beyond the reasonable control of a Party. In the event that the occurrence of a Force Majeure Event delays or prevents the performance of this Agreement, the affected Party shall not be liable for any obligations hereunder only for such delayed or prevented performance. The affected Party who seeks to be exempt from the performance obligation under this Agreement or any provision hereof shall inform the other Party, without delay, of the exemption of obligation and the approaches that shall be taken to complete performance.
- 10.2 The Party affected by Force Majeure Event shall not assume any liability hereunder, provided that only when the affected Party has made all reasonable efforts to perform this Agreement so that such Party who seeks exemption of obligation may be exempted from performing such obligation and only to the extent of the delayed or impeded performance. Once the cause for such exemption of liability is rectified and remedied, each Party agrees to use its best efforts to resume the performance of this Agreement.

#### **11. Miscellaneous**

- 11.1 Further Assurance. The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purpose of this Agreement.
- 11.2 Entire Agreement. Except for the amendments, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.

- 
- 11.3 Headings. The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.
- 11.4 Taxes and Expenses. Each Party shall bear any and all taxes and expenses occurring to or levied on it with respect to the execution and performance of this Agreement.
- 11.5 Transfer of Agreement. Without prior written consent of the WFOE, the Existing Shareholders or the Domestic Company may not assign its rights and obligations hereunder to any third party.
- 11.6 Severability. If any provision of this Agreement is invalid or unenforceable due to inconsistency with relevant laws, such provision shall be deemed invalid or unenforceable only to the extent where the relevant laws apply, and will not affect the legal validity of other provisions of this Agreement.
- 11.7 Waiver. Any Party may waive the terms and conditions of this Agreement, provided that such waiver shall only become effective if made in writing and agreed and signed by the Parties. No waiver by a Party of the breach by the other Parties in a specific case shall operate as a waiver by such Party of any similar breach by the other Parties in other cases.
- 11.8 Amendment and Supplement of Agreement. The Parties shall amend and supplement this Agreement by a written instrument. Any amendment and supplement will become an integral part of this Agreement after proper execution by the Parties and have same legal effect as this Agreement.
- 11.9 Counterpart. This Agreement shall be written in Chinese and executed in quadruplicate, with each Party hereto holding one copy.
- 11.10 From the date of this Agreement be in effective, the Amended and Restated Exclusive Option Agreement signed on May 27th, 2015 by the Parties with Jia Yan, Xiang Wenbin, Zhao Dan, Zhu Daxin, Wang Wenhai, Liu Huajing, Feng Lei, Qiu Yuepeng, is automatically terminated.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

---

IN WITNESS WHEREOF, the following Parties have signed this Agreement as of the date first written above.

Shensi Network Technology (Beijing) Co., Ltd.  
(Seal: /s/ Shensi Network Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

LI Hua  
By: /s/ Li Hua

Shenzhen Futu Network Technology Co., Ltd.  
(Seal: /s/ Shenzhen Futu Network Technology Co., Ltd.)

By: /s/ Li Hua  
Name: LI Hua  
Title: Legal Representative

LI Lei  
By: /s/ Li Lei

Signature Page of the Second Amended and Restated Exclusive Option Agreement

---

**Appendix 1: Existing Shareholders**

<u>Name</u>	<u>Amount of contribution(ten thousand yuan)</u>	<u>Method of investment contribution</u>	<u>Shareholding ratio</u>
Li Hua	850	cash	85%
Li Lei	150	cash	15%
Total	1,000	cash	100%

**Spouse Consent Letter**

I, [Name of Spouse], the undersigned (ID No.: [ID Card Number]), as the legitimate spouse of [Name of Shareholder] (ID No.: [ID Card Number], “[Name of Shareholder]”), hereby (i) unconditionally and irrevocably agree that [Name of Shareholder] sign the following documents (“**Transaction Documents**”), and (ii) agree that the equity interest in Shenzhen Futu Network Technology Co., Ltd. (“**Company**”), owned by and registered under the name of [Name of Shareholder], is disposed in accordance with the provisions of the following documents:

- (1) The Second Amended and Restated Exclusive Option Agreement (as may be amended from time to time) entered into by and among [Name of Shareholder], the Company, and Shensi Network Technology (Beijing) Co., Ltd. (“**WFOE**”) and other parties on [Date];
- (2) The Second Amended and Restated Business Operation Agreement entered into by and among [Name of Shareholder], the Company, the WFOE and other parties on [Date];
- (3) The Second Amended and Restated Equity Interest Pledge Agreement (as may be amended from time to time) entered into by and among [Name of Shareholder], the Company, the WFOE and other parties on [Date];
- (4) The Second Amended and Restated Shareholders’ Voting Rights Proxy Agreement (as may be amended from time to time) entered into by and among [Name of Shareholder], the Company, the WFOE and other parties on [Date].

I undertake that I never made and shall never make any claim for the equity held by [Name of Shareholder] in the Company including but not limited to any ownership, economic rights, voting rights, disposal rights and management decision-making rights related to the equity of the Company. I further confirm that [Name of Shareholder]’s performance of the Transaction Documents and further amendment or termination of the Transaction Documents requires no additional authorization or consent from me.

I undertake that I will sign all necessary documents and take all necessary actions to ensure the proper performance of the Transaction Documents (as may be amended from time to time).

I agree and undertake that I shall be bound by the Transaction Documents (as may be amended from time to time) and comply with the obligations for a shareholder of the Company under the Transaction Documents (as may be amended from time to time) where I hold any equity of the Company due to any reason. For this purpose, I shall sign a series of written instruments in the form and substance substantially identical to the Transaction Documents (as may be amended from time to time) as required.

---

The execution, validity, interpretation and performance of this Consent Letter and the dispute resolution relating to this Consent Letter shall be protected and governed by the laws of the People's Republic of China ("PRC"). General principles of law and customary practices shall apply where existing PRC laws and regulations fail to stipulate.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]*

---

Signature: /s/ [Name of Spouse]

Date: [Date]

*[Signature Page to the Spouse Consent Letter]*

**SHARE PURCHASE AGREEMENT**

THIS SHARE PURCHASE AGREEMENT (this "Agreement") is made and entered into on May 22, 2017 by and among:

1. Futu Holdings Limited (富途控股有限公司), an exempted limited liability company duly incorporated and validly existing under the Laws of the Cayman Islands (the "Company");
2. Futu Securities International (Hong Kong) Limited (富途证券国际(香港)有限公司), a company incorporated under the Laws of Hong Kong ("Futu Int'l HK");
3. Futu Securities (Hong Kong) Limited (富途证券(香港)有限公司), a company incorporated under the Laws of Hong Kong ("Futu New HK");
4. Futu Network Technology Limited (富途網絡科技有限公司), a company incorporated under the Laws of Hong Kong ("Futu Network");
5. Shenzhen Futu Internet Technology Co., Ltd. (深圳市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC ("Futu SZ");
6. Beijing Futu Internet Technology Co., Ltd. (北京市富途网络科技有限公司), a company duly incorporated and validly existing under the Laws of the PRC ("Futu BJ");
7. Futu Internet Technology (Shenzhen) Co., Ltd. (富途网络科技(深圳)有限公司), a company duly incorporated and validly existing under the Laws of the PRC ("Futu Internet SZ");
8. Shenzhen Shidai Futu Consulting Limited (深圳市时代富途咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC ("Shidai Consulting");
9. Shenzhen Qianhai Fuzhitu Investment Consulting Limited (深圳市前海富之途投资咨询有限公司), a company duly incorporated and validly existing under the Laws of the PRC ("Qianhai Consulting");
10. Shen Si Internet Technology (Beijing) Co., Ltd. (慎思网络技术(北京)有限公司) a wholly foreign owned enterprise duly incorporated under the Laws of the PRC (the "WFOE");
11. Futu Inc., a corporation incorporated under the laws of the State of Delaware, United States ("Futu US");
12. Futu NZ Limited, a company incorporated under the laws of New Zealand ("Futu NZ");

- 
13. Each of the individuals listed in Schedule I attached hereto (each such individual, a “Principal” and, collectively, the “Principals”);
  14. Qiantang River Investment Limited, a company incorporated under the Laws of the British Virgin Islands (“Qiantang River”);
  15. Image Frame Investment (HK) Limited 意像架構投資(香港)有限公司, a company incorporated under the Laws of Hong Kong (“Image Frame”, and together with Qiantang River, “Tencent”);
  16. Matrix Partners China III Hong Kong Limited, a company incorporated under the Laws of Hong Kong (“Matrix”);
  17. SCC Venture VI Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands (“SCC”); and
  18. Sequoia Capital CV IV Holdco, Ltd., a company incorporated under the Laws of the Cayman Islands (“Sequoia Holdco”, and together with SCC, “Sequoia”).

Each of the parties listed above is referred to herein individually as a “Party” and collectively as the “Parties”. Tencent, Matrix and Sequoia are collectively referred to as the “Investors” and each an “Investor”.

#### **RECITALS**

- A. The Company owns 100% of the equity interests in each of Futu New HK, Futu Int’l Hong Kong, Futu Network, Futu US and Futu NZ. Futu New HK holds 100% of the equity interests of the WFOE and Futu Internet SZ. The equity interests in Futu SZ are held by LI Hua (defined below) and the Existing SZ Shareholders (defined below), and the WFOE controls Futu SZ through the Control Documents (defined below). Futu SZ owns 100% of the equity interests of Futu BJ. Futu Int’l HK owns 100% of the equity interests in Shidai Consulting and Qianhai Consulting.
- B. The Group (defined below) is engaged in the business of securities brokerage and related services (the “Business”). The Company seeks expansion capital to grow the Business and, correspondingly, seeks to secure an investment from the Investors, on the terms and conditions set forth herein.
- C. The Investors wish to invest in the Company by subscribing for 128,844,812 Series C Preferred Shares and 12,225,282 Series C-1 Preferred Shares to be issued by the Company pursuant to the terms and subject to the conditions of this Agreement.
- D. The Company wishes to issue and allot a total of 128,844,812 Series C Preferred Shares and 12,225,282 Series C-1 Preferred Shares to the Investors pursuant to the terms and subject to the conditions of this Agreement.

- 
- E. The Parties desire to enter into this Agreement and make the respective representations, warranties, covenants and agreements set forth herein on the terms and conditions set forth herein.

**WITNESSETH**

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties intending to be legally bound hereto hereby agree as follows:

**1. Definitions.**

1.1 The following terms shall have the meanings ascribed to them below:

“Accounting Standards” means the International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) (which includes standards and interpretations approved by the IASB and International Accounting Principles issued under previous constitutions), together with its pronouncements thereon from time to time, and applied on a consistent basis.

“Action” means any charge, claim, action, complaint, petition, investigation, appeal, suit, litigation, grievance, inquiry or other proceeding, whether administrative, civil, regulatory or criminal, whether at law or in equity, or otherwise under any applicable Law, and whether or not before any mediator, arbitrator or Governmental Authority.

“Affiliate” means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person. In the case of an Investor, the term “Affiliate” also includes (i) any shareholder of such Investor, (ii) any of such shareholder’s or such Investor’s current or retired general partners or limited partners, (iii) the fund manager managing such shareholder or such Investor (and general partners, limited partners, officers, and directors thereof) and other funds managed by such fund manager, (iv) any venture capital fund now or hereafter existing which is Controlled by or under common Control with one or more general partners or shares the same management company with such Person, and (v) trusts Controlled by or for the benefit of any such Person referred to in (i), (ii), (iii), or (iv). Notwithstanding the foregoing, the parties acknowledge and agree that (a) the name “Sequoia Capital” is commonly used to describe a variety of entities (collectively, the “Sequoia Entities”) that are affiliated by ownership or operational relationship and engaged in a broad range of activities related to investing and securities trading and (b) notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not be binding on, or restrict the activities of, any (i) Sequoia Entity outside of the Sequoia China Sector Group or (ii) entity primarily engaged in investment and trading in the secondary securities market. For purposes of the foregoing, the “Sequoia China Sector Group” means all Sequoia Entities (whether currently existing or formed in the future) that are principally focused on companies located in, or with connections to, the PRC.

---

“Ancillary Agreements” means, collectively, the Shareholders Agreement, the Right of First Refusal and Co-Sale Agreement, the Control Documents, each as defined herein, and any other agreements that the Parties may enter into in connection with this Agreement.

“Applicable Jurisdiction” means any jurisdiction which Laws any Group Company or Principal is subject to or may be bound by, including but not limited to the PRC, Hong Kong, United States, and New Zealand.

“Applicable Rate” means the average exchange rate calculated based on the average daily exchange rate between any two currencies (as determined by reference to the rates reported by the People’s Bank of China) that prevailed during the five (5) days’ period immediately preceding the date on which reference to the relevant currencies is made.

“Associate” means, with respect to any Person, (i) a corporation or organization (other than the Group Companies) of which such Person is an officer or partner or is, directly or indirectly, the record or beneficial owner of five percent (5%) or more of any class of Equity Securities of such corporation or organization, (ii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar capacity, or (iii) any relative or spouse of such Person, or any relative of such spouse.

“Benefit Plan” means any employment Contract, deferred compensation Contract, bonus plan, incentive plan, profit sharing plan, retirement Contract or other employment compensation Contract or any other plan which provides or provided benefits for any past or present employee, officer, consultant, and/or director of a Person or with respect to which contributions are or have been made on account of any past or present employee, officer, consultant, and/or director of such a Person.

“Board” or “Board of Directors” means the board of directors of the Company.

“Business Day” means any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in the Cayman Islands, the PRC or Hong Kong.

“CFC” means a controlled foreign corporation as defined in the Code.

“Charter Documents” means, with respect to a particular legal entity, the articles of incorporation, certificate of incorporation, formation or registration (including, if applicable, certificates of change of name), memorandum of association, articles of association, bylaws, articles of organization, limited liability company agreement, trust deed, trust instrument, operating agreement, joint venture agreement, business license, or similar or other constitutive, governing, or charter documents, or equivalent documents, of such entity.

---

“Circular 37” means Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《国家外汇管理局关于境内居民通过特殊目的公司境外投融资及返程投资外汇管理有关问题的通知》) issued by SAFE on July 4, 2014, including any of its applicable implementing rules or regulations.

“Code” means the Internal Revenue Code of 1986, as amended.

“Company Owned IP” means all Intellectual Property owned by, purported to be owned by, or exclusively licensed to, the Group Companies.

“Company Registered IP” means all Intellectual Property for which registrations are owned by or held in the name of, or for which applications have been made in the name of, any Group Company.

“Competitive Business Activity” means (i) engaging in, or managing or directing persons primarily engaged in the business in competition with that of the Business; (ii) acquiring or having an ownership interest in any business primarily engaged in the business in competition with that of the Business; or (iii) participating in the financing, operation, management or control of any firm, partnership, corporation, entity or business primarily engaged in the business in competition with that of the Business. Notwithstanding the foregoing provision, a passive investment in less than two percent (2%) of the issued and outstanding shares of a publicly traded company engaged in the business in competition with the Business shall not be deemed as a Competitive Business Activity.

“Consent” means any consent, approval, order, authorization or registration, release, waiver, permit, qualification, designation, grant, franchise, concession, agreement, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including any Governmental Authority.

“Consultant” means any person whom a Group Company is authorized under applicable Laws to treat as an independent contractor.

“Contract” means, a contract, agreement, understanding, indenture, note, bond, loan, instrument, lease, mortgage, franchise, license, commitment, purchase order, and other legally binding arrangement, whether written or oral.

“Control” of a given Person means the power or authority, whether exercised or not, to direct the business, management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by Contract or otherwise; provided, that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.

“Control Documents” means the documents through which Futu SZ is Controlled by the WFOE and Futu SZ’s financial results can be fully consolidated into the Company in accordance with the Accounting Standards, including, among others: (i) Exclusive Business Cooperation Agreement (独家业务合作协议) entered into by and between Futu SZ and the WFOE, (ii) Exclusive Option Agreement (独家购买权协议) entered into by and among Futu SZ, the WFOE, and each of the shareholders of Futu SZ, (iii) Proxy Agreement (股东表决权委托协议) entered into by and among Futu SZ, the WFOE, and each of the shareholders of Futu SZ, (iv) Equity Pledge Agreement, and (v) any such other documents as reasonably agreed to between the Company and the Investors in order for the WFOE to effectively Control Futu SZ and the Company to fully consolidate the financial results of Futu SZ.

“Conversion Shares” means the Ordinary Shares issuable upon conversion of any Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred shares or Series C-1 Preferred Shares.

“CSRC” means the China Securities Regulatory Commission.

“Deed of Charge” means that Deed of Charge over shares in the Company granted by Li Hua in favor of Qiantang River dated on or around May 8, 2015.

“DSB” means Dah Sing Bank, Limited.

“DS Facilities” means the banking facilities entered into between Futu Int’l HK and DSB on September 21, 2016.

“Equity Pledge Agreement” means the Equity Pledge Agreement (股权质押合同) entered into by and among Futu SZ, the WFOE and each of the shareholders of Futu SZ (including each of the Investor Designees).

“Equity Securities” means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing, or any Contract providing for the acquisition of any of the foregoing.

“Existing SZ Shareholders” means the existing shareholders (excluding Li Hua) of Futu SZ as of the date of the execution of this Agreement, consisting of LI Lei (李镛), FENG Lei (冯磊), JIA Yan (贾岩), XIANG Wenbin (香文斌), ZHAO Dan (赵丹), ZHU Daxin (朱达欣), WANG Wenhai (王闻海), LIU Huajing (刘化静) and QIU Yuepeng (邱跃鹏).

---

“FCPA” means Foreign Corrupt Practices Act of the United States of America, as amended from time to time.

“Governmental Authority” means any government of any nation or any federation, province or state or any other political subdivision thereof; any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the PRC, Hong Kong, United States of America, New Zealand or any other country, or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization.

“Governmental Order” means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

“Group Company” means each of the Company, Futu Int’l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting and WFOE, together with each Subsidiary of any of the foregoing, and “Group” or “Group Companies” refers to all of the Group Companies collectively.

“ICP License” means a value-added telecommunications service license (增值电信业务经营许可证) issued to Futu SZ by a competent provincial branch of the Ministry of Industry and Information Technology of PRC, covering transaction processing (交易处理) and internet information services (互联网信息服务).

“Indebtedness” of any Person means, without duplication, each of the following of such Person: (i) all indebtedness for borrowed money, (ii) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business), (iii) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (iv) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced that are incurred in connection with the acquisition of properties, assets or businesses, (v) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (vi) all obligations that are capitalized (including capitalized lease obligations), (vii) all obligations under banker’s acceptance, letter of credit or similar facilities, (viii) all obligations to purchase, redeem, retire, defease or otherwise acquire for value any Equity Securities of such Person, (ix) all obligations in respect of any interest rate swap, hedge or cap agreement, and (x) all guarantees issued in respect of the Indebtedness referred to in clauses (i) through (ix) above of any other Person, but only to the extent of the Indebtedness guaranteed.

---

“Indemnifiable Loss” means, with respect to any Person, any action, claim, cost, damage, deficiency, diminution in value, disbursement, expense, liability, loss, obligation, penalty or settlement of any kind or nature imposed on or otherwise incurred or suffered by such Person, including without limitation, reasonable legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement and Taxes payable by such Person by reason of the indemnification.

“Intellectual Property” means any and all (i) patents, patent rights and applications therefor and reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (ii) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (iii) registered and unregistered copyrights, copyright registrations and applications, mask works and registrations and applications therefor, author’s rights and works of authorship (including artwork, software, computer programs, source code, object code and executable code, firmware, development tools, files, records and data, and related documentation), (iv) URLs, web sites, web pages and any part thereof, (v) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications, proprietary data, customer lists, databases, proprietary processes, technology, formulae, and algorithms and other intellectual property, (vi) trade names, trade dress, trademarks, domain names, service marks, logos, business names, and registrations and applications therefor, and (vii) the goodwill symbolized or represented by the foregoing.

“Investor Designee” means the PRC-domestic Person designated by a Subscribing Investor;

“Key Employees” means all (i) employees of the Group Companies with positions of president, chief executive officer, chief financial officer, chief operating officer, chief technical officer, chief sales and marketing officer, general manager, any other managers reporting directly to any Group Company’s board of directors, president or chief executive officer, (ii) any other employee with the title of “vice president” or higher, and (iii) each of the Group Companies’ Licensed Representatives and Responsible Officers. The names of the current Key Employees are listed in Schedule III hereto.

“Knowledge” means, with respect to the Warrantors, the actual knowledge of any of the Principals, and that knowledge which should have been acquired by each such individual after making such due inquiry and exercising such due diligence as a prudent business person would have made or exercised in the management of his or her business affairs, including but not limited to due inquiry of all officers, directors, employees, consultants and professional advisers (including attorneys, accountants and auditors) of the Group and of its Affiliates who could reasonably be expected to have knowledge of the matters in question.

“Law” or “Laws” means any and all provisions of any applicable constitution, treaty, statute, law, regulation, ordinance, code, rule, or rule of common law, any governmental approval, concession, grant, franchise, license, agreement, directive, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, in each case as amended, and any and all applicable Governmental Orders.

---

“Liabilities” means, with respect to any Person, all liabilities, obligations and commitments of such Person of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due.

“Licensed Representative” means an individual who is granted a licence under section 120 or 121 of the Securities and Futures Ordinance.

“Lien” means any claim, charge, easement, encumbrance, lease, covenant, security interest, lien, option, pledge, rights of others, or restriction (whether on voting, sale, transfer, disposition or otherwise), whether imposed by Contract, understanding, law, equity or otherwise.

“Li Hua” means LI Hua (李华), an individual with PRC ID card number .

“Loan Agreement” means that Loan Agreement entered into between Qiantang River and the Company dated August 10, 2015, pursuant to which Qiantang River offered the Company a credit line of up to HK\$200 million.

“Majority Preferred Holders” means the holders of more than 50% of the voting power of the outstanding Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series C-1 Preferred Shares (voting together as a single class and on an as-converted basis).

“Material Adverse Effect” means any (i) event, occurrence, fact, condition, change or development that has had, has, or could reasonably be expected to have, individually or together with other events, occurrences, facts, conditions, changes or developments, a material adverse effect on the business, properties, assets, employees, operations, results of operations, condition (financial or otherwise), prospects, assets or liabilities of a Group Company, individually or taken as a whole, (ii) material impairment of the ability of any Party (other than the Investors) to perform the material obligations of such party under any Transaction Documents, or (iii) material impairment of the validity or enforceability of this Agreement or any other Transaction Document against any Party hereto or thereto (other than the Investors).

“Memorandum and Articles” means the third amended and restated memorandum of association of the Company and the third amended and restated articles of association of the Company attached hereto as Exhibits B-1 and Exhibit B-2, respectively, to be adopted in accordance with applicable Law on or before the Closing.

“MOFCOM” means the Ministry of Commerce of the PRC or, with respect to any matter to be submitted for examination and approval by the Ministry of Commerce, any Governmental Authority which is similarly competent to examine and approve such matter under the laws of the PRC.

“Order No. 10” means the Rules for Mergers with and Acquisitions of Domestic Enterprises by Foreign Investor (《关于外国投资者并购境内企业的规定》) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the China Securities Regulatory Commission and the SAFE on August 8, 2006, and updated by MOFCOM on June 22, 2009.

“Ordinary Shares” means the Company’s ordinary shares, par value US\$0.00001 per share.

“Outstanding Credit Line” means the (i) indebtedness of HK\$30 million of the outstanding principal amount (plus any accrued but unpaid interest therein) pursuant to the Secured Convertible Note, and (ii) HK\$150 million of the outstanding principal amount (plus any accrued but unpaid interest therein) under the Loan Agreement.

“Permitted Liens” means (i) the Liens for Taxes not yet delinquent or the validity of which are being contested in good faith and for which there are adequate reserves on the applicable financial statements, and (ii) the Liens incurred in the ordinary course of business, which (a) do not individually or in the aggregate materially detract from the value, use, or transferability of the assets that are subject to such Liens, and (b) were not incurred in connection with the borrowing of money.

“Person” means any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity.

“PFIC” means a passive foreign investment company as defined in the Code.

“PRC” means the People’s Republic of China, solely for the purposes of this Agreement and the other Transaction Documents, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the islands of Taiwan.

“Preferred Shares” means the Series A Preferred Shares, the Series A-1 Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, and the Series C-1 Preferred Shares.

“Prohibited Person” means any Person that is (i) a national or resident of any U.S. embargoed or restricted country, (ii) included on, or Affiliated with any Person on, the United States Commerce Department’s Denied Parties List, Entities and Unverified Lists; the U.S. Department of Treasury’s Specially Designated Nationals, Specially Designated Narcotics Traffickers or Specially Designated Terrorists, or the Annex to Executive Order No. 13224; the Department of State’s Debarred List; UN Sanctions, or (iii) a Person with whom business transactions, including exports and re-exports, are restricted by a U.S. Governmental Authority, including, in each clause above, any updates or revisions to the foregoing and any newly published rules.

---

“Public Official” means any executive, officer, official, or employee of a Governmental Authority, political party or member of a political party, political candidate; executive, employee or officer of a public international organization; or director, officer or employee or agent of a wholly owned or partially state-owned or controlled enterprise, including a PRC state-owned or controlled enterprise.

“Related Party” means any Affiliate, officer, director, supervisory board member, employee, or holder of any Equity Security of any Group Company, and any Affiliate or Associate of any of the foregoing.

“Responsible Officer” means an individual who is approved by the SFC under section 126(1) of the Securities and Futures Ordinance as a responsible officer of the Company,

“Right of First Refusal and Co-Sale Agreement” means the second amended and restated right of first refusal and co-sale agreement to be entered into by and among the Investors and Li Hua on or prior to the Closing, which shall be in the form attached hereto as Exhibit A.

“SAFE” means the State Administration of Foreign Exchange of the PRC.

“SAFE Rules and Regulations” means collectively, Circular 37 and any other applicable SAFE rules and regulations.

“SAIC” means the State Administration of Industry and Commerce of the PRC or, with respect to the issuance of any business license or filing or registration to be effected by or with the State Administration of Industry and Commerce, any Governmental Authority which is similarly competent to issue such business license or accept such filing or registration under the laws of the PRC.

“Secured Convertible Note” means that Secured Convertible Note in the principal amount of HK\$30 million, entered into between Qiantang River and the Company dated on or around May 8, 2015, as amended on June 17, 2016.

“Securities Act” means the U.S. Securities Act of 1933, as amended and interpreted from time to time.

“Series A Preferred Shares” means the Series A Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series A-1 Preferred Shares” means the Series A-1 Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

---

“Series B Preferred Shares” means the Series B Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series B SPA” means that Share Purchase Agreement dated May 27, 2015 entered into between certain of the Group Companies, Qiantang River, Matrix and Sequoia Holdco.

“Series C Preferred Shares” means the Series C Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series C-1 Preferred Shares” means the Series C-1 Preferred Shares of the Company, par value US\$0.00001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“SFC” means the Securities and Futures Commission of Hong Kong.

“SFO” means the Securities and Futures Ordinance of Hong Kong, as amended from time to time.

“Shareholders Agreement” means the second amended and restated Shareholders Agreement to be entered into by and among the parties named therein on or prior to the Closing, which shall be in the form attached hereto as Exhibit C.

“Social Insurance” means any form of social insurance required under applicable Laws, including without limitation, the PRC national and local contributions for pensions, medical insurance, unemployment insurance, work-related injury insurance, pregnancy benefits, and housing accumulation funds.

“Software” means any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, including all source code and executable code, whether embodied in software, firmware or otherwise, documentation, development tools, designs, files, verilog files, RTL files, HDL, VHDL, net lists, records, data and mask works; and (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, and all rights therein.

“Subsidiary” means, with respect to any given Person, any other Person that is Controlled directly or indirectly by such given Person. With respect to the Company, its Subsidiaries shall include Futu Int'l HK, Futu New HK, Futu Network, Futu US, Futu NZ, Futu SZ, Futu BJ, Futu Internet SZ, Shidai Consulting, Qianhai Consulting, and the WFOE.

---

“Tax” means (i) in the PRC: (a) any national, provincial, municipal, or local taxes, charges, fees, levies, or other assessments, including, without limitation, all net income (including enterprise income tax and individual income withholding tax), turnover (including value-added tax, business tax, and consumption tax), resource (including urban and township land use tax), special purpose (including land value-added tax, urban maintenance and construction tax, and additional education fees), property (including urban real estate tax and land use fees), documentation (including stamp duty and deed tax), filing, recording, social insurance (including pension, medical, unemployment, housing, and other social insurance withholding), tariffs (including import duty and import value-added tax), and estimated and provisional taxes, charges, fees, levies, or other assessments of any kind whatsoever, (b) all interest, penalties (administrative, civil or criminal), or additional amounts imposed by any Governmental Authority in connection with any item described in clause (a) above, and (c) any form of transferee liability imposed by any Governmental Authority in connection with any item described in clauses (a) and (b) above, and (ii) in any jurisdiction other than the PRC: all similar liabilities as described in clause (i)(a) and (i)(b) above.

“Tax Return” means any return, report or statement showing Taxes, used to pay Taxes, or required to be filed with respect to any Tax (including any elections, declarations, schedules or attachments thereto, and any amendment thereof), including any information return, claim for refund, amended return or declaration of estimated or provisional Tax.

“Tencent Investor Director” means the Board member designated by Tencent and his/her respective successors designated by Tencent in accordance with the Charter Documents of the Company.

“Transaction Documents” means this Agreement, the Ancillary Agreements, the Memorandum and Articles and each of the other agreements and documents otherwise required in connection with implementing the transactions contemplated by any of the foregoing.

“U.S. Person” has the meaning ascribed to such term in Regulation S promulgated by the SEC under the U.S. Securities Act of 1933.

“Warrantors” means, collectively, the Group Companies and the Principals.

**1.2 Other Defined Terms.** The following terms shall have the meanings defined for such terms in the Sections set forth below:

Agreement	Preamble
Business	Recitals
Closing	Section 2.2(ii)
Company	Preamble
Company IP	Section 3.19(i)
Compliance Laws	Section 3.16(i)
Disclosure Schedule	Section 3
Dispute	Section 8.4
ESOP	Section 3.2(i)
Financial Statement	Section 3.11
Futu BJ	Preamble
Futu Int'l HK	Preamble
Futu Internet SZ	Preamble
Futu Network	Preamble
Futu New HK	Preamble
Futu NZ	Preamble
Futu SZ	Preamble
Futu US	Preamble
HKEx	Section 3.8(ii)
HKIAC	Section 8.4
Image Frame	Preamble
Indemnifying Parties	Section 7.5
Indemnitee	Section 7.5
Investment Amount	Section 2.1
Investor/Investors	Preamble
Lease	Section 3.17(ii)
Licenses	Section 3.19(v)
Material Contracts	Section 3.15(i)
Matrix	Preamble
Onshore Subscription Request	Schedule VI
Other Businesses	Section 3.25
Party/Parties	Preamble
Principal/Principals	Preamble
Proceeds	Section 2.3
Qianhai Consulting	Preamble
Qiantang River	Preamble
Representatives	Section 3.16(i)
Required Consents	Section 3.8(ii)
SCC	Preamble
SEC	Section 4.3
Sequoia Holdco	Preamble
Shidai Consulting	Preamble
Statement Date	Section 3.11
Subscribing Investors	Schedule VI
Subscription Price	Section 2.1
Tencent	Preamble
Terminating Party	Section 8.5
WFOE	Preamble

**1.3 Interpretation.** Unless a provision hereof expressly provides otherwise: (i) the term “or” is not exclusive; (ii) words in the singular include the plural, and words in the plural include the singular; (iii) the terms “herein”, “hereof”, and other similar words refer to this Agreement as a whole and not to any particular section, subsection, paragraph, clause, or other subdivision; (iv) the term “including” will be deemed to be followed by, “but not limited to”; (v) the masculine, feminine, and neuter genders will each be deemed to include the others; (vi) the terms “shall”, “will”, and “agrees” are mandatory, and the term “may” is permissive; (vii) the term “day” means “calendar day”, and “month” means calendar month, (viii) all references in this Agreement to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of the body of this Agreement, (ix) all references in this Agreement to designated Schedules, Exhibits and Appendices are to the Schedules, Exhibits and Appendices attached to this Agreement, (x) the phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning, (xi) references to laws include any such law modifying, re-enacting, extending or made pursuant to the same or which is modified, re-enacted, or extended by the same or pursuant to which the same is made, (xii) each representation, warranty, agreement, and covenant contained herein will have independent significance, regardless of whether also addressed by a different or more specific representation, warranty, agreement, or covenant, (xiii) all accounting terms not otherwise defined herein have the meanings assigned under the Accounting Standards, (xiv) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms, (xv) references to this Agreement, any other Transaction Documents and any other document shall be construed as references to such document as the same may be amended, supplemented or novated from time to time, (xvi) all references to dollars or to “US\$” are to the currency of the United States of America, all references to “RMB” are to the currency of the PRC and all references to “HKD” or “HK\$” are to the currency of Hong Kong (and each shall be deemed to include reference to the equivalent amount in other currencies calculated in accordance with the Applicable Rate), (xvii) references to “Qiantang River” and “Image Frame” shall include any of their respective assignees, and (xviii) references to “Tencent” shall mean collectively Qiantang River and Image Frame (and any of their respective assignees), and for the purpose of calculating any voting rights or shareholding of Tencent, such voting rights or shareholding shall be a reference to the voting rights or shareholding of Qiantang River and Image Frame (and any of their respective assignees) taken in aggregate.

## **2. Subscription and Issuance of the Series C and C-1 Preferred Shares.**

**2.1 Issuance of the Series C and C-1 Preferred Shares.** Subject to the terms and conditions of this Agreement, each Investor agrees to subscribe from the Company, and the Company agrees to issue and allot to such Investor, that number of the Series C Preferred Shares or Series C-1 Preferred Shares (as applicable) as indicated opposite such Investor’s name in the second column of Schedule A attached hereto, for an aggregate consideration as set forth opposite such Investor’s name in the third column of Schedule A attached hereto. In connection with the Outstanding Credit Line which forms part of the consideration for the Series C Preferred Shares to be issued, Qiantang River hereby directs, and the Company agrees to comply with such direction, the Company to allot Series C Preferred Shares to Image Frame as its designee.

### **2.2 Closing.**

- (i) The consummation of the issuance and allotment of the Series C Preferred Shares and Series C-1 Preferred Shares pursuant to Section 2.1 (the “Closing”) shall take place remotely via the exchange of documents and signatures on a date specified by the Parties as soon as practical after satisfaction or otherwise waiver of the conditions as set forth in Section 5 and Section 6 (but in any event within ten (10) Business Days thereafter, except for the conditions to be satisfied at the Closing), or at such other time and place as the Company and Tencent shall mutually agree in writing.

- 
- (ii) At the Closing: (a) each relevant Investor shall pay the purchase price indicated opposite its name in the third column of Schedule A attached hereto, to the extent such purchase price is expressed as a payment in cash, by wire transfer of United States dollars in immediately available funds or by other payment methods mutually agreed to by the Company; and (b) the Company shall deliver to such Investor (1) a share certificate representing the Shares that the Investor is purchasing at the Closing; and (2) an updated copy of the Company's register of members certified as a true, complete and accurate copy by the registered office of the Company and which register complies with the requirements of the Companies Law (2016 Revision) of the Cayman Islands evidencing the Investor's ownership of such Series C Preferred Shares or Series C-1 Preferred Shares (as applicable) against payment of the relevant consideration therefor at the Closing.

**2.3 Use of Proceeds.** The Company shall use the proceeds from the issuance and allotment of the Series C Preferred Shares and Series C-1 Preferred Shares (the "Proceeds") for purpose of business expansion, capital expenditures and general working capital needs of the Group Companies in accordance with the annual consolidated budget of the Company approved by the Investors. Unless approved by Majority Preferred Holders, proceeds from the issuance of Series C Preferred Shares or Series C-1 Preferred Shares shall not be used to repurchase, redeem, or cancel any junior securities or to make any payments to any Affiliates, or for the repayment of any indebtedness except as set forth in the preceding sentence.

**3. Representations and Warranties of the Warrantors.** Except as set forth in the Disclosure Schedule, the Warrantors hereby jointly and severally represent and warrant to and undertake with the Investors that each of the matters set out in this Section 3 is as of the date hereof and as of the Closing, true and correct. Each of the Warrantors undertakes to notify the Investors, in writing as soon as practicable of any matter or event which becomes known to it prior to the Closing which may render any warranty to be or to have been untrue or inaccurate. Subject to such exceptions as specifically set forth in the disclosure schedule attached hereof as Schedule IV and to be updated, if necessary, by the Warrantors at the Closing (the "Disclosure Schedule"), each of the Warrantors jointly and severally represents and warrants to the Investors that:

**3.1 Organization, Good Standing and Qualification.** Each Group Company is duly organized, validly existing and in good standing (or equivalent status in the relevant jurisdiction) under, and by virtue of, the Laws of the place of its incorporation or establishment and has all requisite power and authority to own its properties and assets and to carry on its business as now conducted and as proposed to be conducted, and to perform each of its obligations under the Transaction Documents to which it is a party. Each Group Company is qualified to do business and is in good standing (or equivalent status in the relevant jurisdiction) in each jurisdiction where failure to be so qualified would be a Material Adverse Effect. Each Group Company that is a PRC entity has a valid business license issued by the SAIC or its local branch or other relevant Governmental Authorities (a true and complete copy of which has been delivered to the Investors), and has, since its establishment, carried on its business materially in compliance with the business scope set forth in its business license.

---

### 3.2 Capitalization and Voting Rights.

(i) **Company.** The authorized share capital of the Company is and immediately prior to the Closing shall be US\$50,000.00 divided into 5,000,000,000 shares consisting of (a) a total of 4,622,068,906 authorized Ordinary Shares, 403,750,000 of which are issued and outstanding, and, as of the Closing, 135,032,132 of which shall be reserved for issuance to officers, directors, employees, consultants or service providers of the Company pursuant to the ESOP, which shall represent 14.73% of the fully diluted capital of the Company on an as-converted basis immediately after the Closing; (b) a total of 125,000,000 authorized Series A Preferred Shares, all of which are issued and outstanding; (c) a total of 23,437,500 authorized Series A-1 Preferred Shares, all of which are issued and outstanding; (d) a total of 88,423,500 authorized Series B Preferred Shares, all of which are issued and outstanding; (e) a total of 128,844,812 authorized Series C Preferred Shares, none of which are issued and outstanding; and (f) a total of 12,225,282 authorized Series C-1 Preferred Shares, none of which are issued and outstanding. Section 3.2(i) of the Disclosure Schedule set forth the capitalization table of the Company as of (i) the date of this Agreement, (ii) immediately prior to the Closing, and (iii) immediately after the Closing, in each case reflecting all the then outstanding and authorized Equity Securities of the Company, the record and beneficial holders thereof, the issuance date, and the terms of any vesting applicable thereto.

(ii) **Other Group Companies.** As of the date of this Agreement, and immediately prior to and following the Closing, the registered capital, issued capital, and authorized capital (as applicable) of each other Group Company is set forth opposite its name on Section 3.2(ii) of the Disclosure Schedule, together with an accurate list of the record and beneficial owners of such registered capital.

(iii) **No Other Securities.** Except for (a) the conversion privileges of the Preferred Shares, and (b) certain rights provided in the Memorandum and Articles, the Shareholders Agreement, and the Right of First Refusal and Co-Sale Agreement, (A) there are no and at the Closing there shall be no other authorized or outstanding Equity Securities of any Group Company, other than the shares issued or reserved pursuant to this Agreement; (B) no Equity Securities of any Group Company are subject to any preemptive rights, rights of first refusal (except to the extent provided by applicable PRC Laws) or other rights to purchase such Equity Securities or any other rights with respect to such Equity Securities, and (C) no Group Company is a party or subject to any Contract that affects or relates to the voting or giving of written consents with respect to, or the right to cause the redemption, or repurchase of, any Equity Security of such Group Company. Except as set forth in the Shareholders Agreement, the Company has not granted any registration rights or information rights to any other Person, nor is the Company obliged to list, any of the Equity Securities of any Group Companies on any securities exchange. Except as contemplated under the Transaction Documents, there are no voting or similar agreements which relate to the share capital or registered capital of any Group Company.

---

(iv) **Issuance and Status.** All presently outstanding Equity Securities of each Group Company were duly and validly issued (or subscribed for) in compliance with all applicable Laws, preemptive rights of any Person, and applicable Contracts. All share capital or registered capital, as the case may be, of each Group Company have been duly and validly issued, are fully paid (or subscribed for) and nonassessable, and are and as of the Closing shall be free of any and all Liens (except for any restrictions on transfer under the Ancillary Agreements and applicable Laws). Except as contemplated under the Transaction Documents, there are no (a) resolutions pending to increase the share capital or registered capital of any Group Company or cause the liquidation, winding up, or dissolution of any Group Company, nor has any distress, execution or other process been levied against any Group Company, (b) dividends which have accrued or been declared but are unpaid by any Group Company, (c) obligations, contingent or otherwise, of any Group Company to repurchase, redeem, or otherwise acquire any Equity Securities, or (d) outstanding or authorized equity appreciation, phantom equity, equity plans or similar rights with respect to any Group Company. All dividends (if any) or distributions (if any) declared, made or paid by each Group Company, and all repurchases and redemptions of Equity Securities of each Group Company (if any), have been declared, made, paid, repurchased or redeemed, as applicable, in accordance with its Charter Documents and all applicable Laws.

(v) **Title.** Each Group Company is the sole record and beneficial holder of all of the Equity Securities set forth opposite its name on Section 3.2(i) of the Disclosure Schedule, free and clear of all Liens of any kind other than those arising under applicable Laws.

**3.3 Corporate Structure; Subsidiaries.** Section 3.3 of the Disclosure Schedule sets forth a complete structure chart showing the Group Companies, and indicating the ownership and Control relationships among all the Group Companies, the nature of the legal entity which each Group Company constitutes, the jurisdiction in which each Group Company was organized, and each jurisdiction in which each Group Company is required to be qualified or licensed to do business as a foreign Person. No Group Company owns or Controls, or has ever owned or Controlled, directly or indirectly, any Equity Security, interest or share in any other Person or is or was a participant in any joint venture, partnership or similar arrangement. No Group Company is obligated to make any investment in or capital contribution in or on behalf of any other Person. The Company was formed solely to acquire and hold the equity interests in Futu Int'l HK, Futu New HK and Futu Network. Futu New HK was formed solely to acquire and hold the equity interests in the WFOE. Neither the Company nor Futu New HK nor the WFOE has engaged in any other business and has not incurred any Liability since its formation, except for the liabilities as disclosed in the Disclosure Schedule, incorporation costs and associated legal expenses. Futu SZ and Futu BJ are engaged in the Business and have no other business. Shidai Consulting and Qianhai Consulting have not engaged in and are not engaging in any business.

---

**3.4 Authorization.** Each Warrantor has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and to carry out and perform its obligations thereunder. All the action on the part of each party to the Transaction Documents (other than the Investors) (and, as applicable, its officers, directors and shareholders) necessary for the authorization, execution and delivery of the Transaction Documents, the performance of all the obligations of each such party, and, in the case of the Company, the authorization, issuance (or reservation for issuance), allotment and delivery of the Preferred Shares and the Conversion Shares, has been taken or will be taken prior to the Closing. Each Transaction Document has been duly executed and delivered by each party thereto (other than the Investors) and constitutes valid and legally binding obligations of such party, enforceable against such party in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other Laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by Laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

**3.5 Valid Issuance of Preferred Shares.** The Series C Preferred Shares and Series C-1 Preferred Shares, when issued, delivered and paid for in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and non-assessable, free from any Liens (except for any restrictions on transfer under applicable Laws and under the Ancillary Agreements). The Conversion Shares have been reserved for issuance and, upon issuance in accordance with the terms of the Memorandum and Articles, will be duly and validly issued, fully paid and non-assessable, free from any Liens (except for any restrictions on transfer under applicable securities Laws and under the Ancillary Agreements). The issuance of the Series C Preferred Shares, the Series C-1 Preferred Shares and the Conversion Shares is not subject to any preemptive rights, rights of first refusal or similar rights.

**3.6 Consents; No Conflicts.** All the Consents from or with any Governmental Authority or any other Person required in connection with the valid execution, delivery and performance of the Transaction Documents, and the consummation of the transactions contemplated by the Transaction Documents, in any case on the part of any party thereto (other than the Investors) have been duly obtained or completed (as applicable) and are in full force and effect. The execution, delivery and performance of each Transaction Document by each party thereto (other than the Investors) do not, and the consummation by such party of the transactions contemplated thereby will not, (i) result in any violation of, be in conflict with, or constitute a default under, require any Consent under, or give any Person rights of termination, amendment, acceleration or cancellation under, with or without the passage of time or the giving of notice, any Governmental Order, any provision of the Charter Documents of any Group Company, any applicable Laws (including without limitation Order No. 10 and the SAFE Rules and Regulations), or any Material Contract, (ii) result in any termination, modification, cancellation, or suspension of any material right of, or any augmentation or acceleration of any material obligation of, any Group Company (including without limitation, any indebtedness of such Group Company), or (iii) result in the creation of any Lien upon any of the material properties or assets of any Group Company other than Permitted Liens.

---

**3.7 Offering.** Subject in part to the accuracy of the Investors' representations set forth in Section 4 of this Agreement, the offer and issuance of the Series C Preferred Shares and Series C-1 Preferred Shares are, and the issuance of the Conversion Shares will be, exempt from the qualification, registration and prospectus delivery requirements of the Securities Act and any other applicable securities Laws.

**3.8 Compliance with Laws; Consents.**

(i) Except for as described in Section 3.8(i) of the Disclosure Schedule, each Group Company and each of their Responsible Officers and Licensed Representatives is, and has been, in compliance in all material respects with all applicable Laws, including, without limitation, all Laws relating to: securities trading and brokerage services in Hong Kong, PRC, the United States, and New Zealand, (ii) paid services offered online or on mobile apps, (iii) the control of foreign exchange, (iv) the safeguard of privacy and personal data, (v) employment and social insurance, (vi) Tax and (iv) accounting. Without limiting the foregoing, each Group Company which is engaged in the securities brokerage business does not conduct such business in the United States or with U.S. Persons, except as permitted under SEC Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934 ("Rule 15a-6"). No event has occurred and no circumstance exists that (with or without notice or lapse of time) (a) may constitute or result in a violation by any Group Company or any of their Responsible Officers or Licensed Representatives of, or a failure on the part of such entity or person to comply with, any applicable Laws in any material respect, or (b) may give rise to any obligation on the part of any Group Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature. None of the Group Companies or any of their Responsible Officers or Licensed Representatives has received any notice from any Governmental Authority regarding any of the foregoing. To the Knowledge of the Warrantors, no Group Company or any of their Responsible Officers or Licensed Representatives is under investigation with respect to a material violation of any Law. For the avoidance of doubt, the foregoing representation also applies to the Group Companies' compliance with applicable Laws with respect to privacy protection in connection with their operation of business, including but not limited to, their direct or indirect collection, deposit, exchange, distribution and employment of personal information or participation therein.

(ii) All the Consents from or with the relevant stock exchange (including The Stock Exchange of Hong Kong Limited ("HKEx") or Governmental Authority required in respect of the due and proper establishment and operations of each Group Company as now conducted, including but not limited to the Consents from or with the SEC, SFC, MOFCOM, SAIC, SAFE, the China Securities Regulatory Commission, any Tax bureau, and the local counterpart thereof, as applicable (or any predecessors thereof, as applicable) (collectively, the "Required Consents"), have been duly obtained or completed in accordance with all applicable Laws.

(iii) No Required Consent contains any materially burdensome restrictions or conditions, and each Required Consent is in full force and effect and will remain in full force and effect upon the consummation of the transactions contemplated hereby. None of the Group Companies is in default under any Required Consent. To the Knowledge of the Warrantors, there is no reason to believe that any Required Consent which is subject to periodic renewal will not be granted or renewed. No Group Company has received any letter or other communication from any Governmental Authority threatening or providing notice of revocation of any Required Consent issued to any Group Company or the need for compliance or remedial actions in respect of the activities carried out directly or indirectly by any Group Company.

---

### 3.9 Tax Matters.

(i) Except for as described in Section 3.9(i) of the Disclosure Schedule, all material Tax Returns required to be filed on or prior to the date hereof with respect to each Group Company has been duly and timely filed by such Group Company within the requisite period and completed on a proper basis in accordance with the applicable Laws in all material respects, and are up to date and correct in all material respects. All Taxes owed by each Group Company (whether or not shown on every Tax Return) have been paid in full or provision for the payment thereof have been made, except such Taxes, if any, as are being contested in good faith and as to which adequate reserves (determined in accordance with the Accounting Standards) have been provided in the audited Financial Information. No deficiencies for any Taxes with respect to any Tax Returns have been asserted in writing by, and no notice of any pending action with respect to such Tax Returns has been received from, any Tax authority, and, to the Knowledge of each Group Company, no dispute relating to any Tax Returns with any such Tax authority is outstanding or threatened. Each Group Company has timely paid all material Taxes owed by it which are due and payable (whether or not shown on any Tax Return) and withheld and remitted to the appropriate Governmental Authority all material Taxes which it is obligated to withhold and remit from amounts owing to any employee, creditor, customer or third party.

(ii) No audit of any Tax Return of each Group Company and, to the Knowledge of each Group Company, no formal investigation with respect to any such Tax Return by any Tax authority is currently in progress and no Group Company has waived any statute of limitations with respect to any Taxes, or agreed to any extension of time with respect to an assessment or deficiency for such Taxes.

(iii) No written claim has been made by a Governmental Authority in a jurisdiction where the Group does not file Tax Returns that any Group Company is or may be subject to taxation by that jurisdiction.

(iv) The assessment of any additional Taxes with respect to the applicable Group Company for periods for which Tax Returns have been filed is not expected to exceed the recorded Liability therefor in the most recent balance sheet in the Financial Information (as defined below), and there are no unresolved questions or claims concerning any Tax Liability of any Group Company. Since the incorporation of the Company, no Group Company has incurred any liability for Taxes outside the ordinary course of business or otherwise inconsistent with past custom and practice. There is no pending dispute with, or notice from, any Tax authority relating to any of the Tax Returns filed by any Group Company, and to the Knowledge of the Warrantors, there is no proposed Liability for a deficiency in any Tax to be imposed upon the properties or assets of any Group Company.

(v) No Group Company has been the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes that has not been resolved or is currently the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes. No Group Company is responsible for the Taxes of any other Person by reason of Contract, successor liability or otherwise.

---

(vi) The Group Companies have been in compliance with all applicable Laws relating to all Tax credits and Tax holidays enjoyed by the Group Companies established under the Laws of the PRC under applicable Laws.

**3.10 Charter Documents; Books and Records.** The Charter Documents of each Group Company are in the form provided to the Investors. Each Group Company has been in compliance with its Charter Documents, and none of the Group Companies has violated or breached any of their respective Charter Documents. Each Group Company maintains its books of accounts and records in the usual, regular and ordinary manner, on a basis consistent with prior practice, and which permits its Financial Information (as defined below) to be prepared in accordance with the Accounting Standards. The register of members and directors (if applicable) of each Group Company is correct, there has been no notice of any proceedings to rectify any such register, and to the Knowledge of the Warrantors there are no circumstances which might lead to any application for its rectification. All documents requiring to be filed by each Group Company with the applicable Governmental Authority in respect of the relevant jurisdiction in which the relevant Group Companies is being incorporated have been properly made up and filed.

**3.11 Financial Statements.** The Company has provided true and complete copies of the financial statements and information of the Group Companies (the "Financial Information") to the Investors prior to the Closing, comprised of the unaudited income statements and statements of cash flow of the Group Companies for 2014, 2015 and 2016 and the unaudited consolidated balance sheets of the Group Companies as of December 31, 2014, December 31, 2015 and December 31, 2016 and March 31, 2017 (the foregoing financial statements and any notes thereto are hereinafter referred to as the "Financial Statements" and March 31, 2017, the "Statement Date"). The Financial Statements provided to the Investors (a) have been prepared in accordance with the books and records of the Group Companies, (b) have been prepared in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules, (c) have satisfied the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules; and (d) fairly present in all material respects the financial condition and position of the Group Companies as of the dates indicated therein and the results of operations and cash flows of the Group for the periods indicated therein. All of the accounts receivable owing to any of the Group Companies, including without limitation all accounts receivable set forth on the Financial Statements, constitute valid and enforceable claims and are current and collectible in the ordinary course of business in all material respects, net of any reserves shown on the Financial Information (which reserves are adequate and were calculated on a basis consistent with the Accounting Standards), and no further goods or services are required to be provided in order to complete the sales and to entitle the applicable Group Company to collect in full in respect of any such receivables. There are no material, contingent or asserted claims, refusals to pay, or other rights of set-off with respect to any accounts receivable of any Group Company.

---

**3.12 Changes.** Since the Statement Date, the Group (i) has operated its business in the ordinary course consistent with its past practice, (ii) used its reasonable best efforts to preserve its business, (iii) collected receivables and paid payables and similar obligations in the ordinary course of business consistent with past practice, and (iv) not engaged in any new line of business or entered into any agreement, transaction or activity or made any commitment except those in the ordinary course of business consistent with past practice. Since the Statement Date, there has not been any Material Adverse Effect or any material change in the way the Group conducts its business, and there has not been by or with respect to any Group Company:

(i) any purchase, acquisition, sale, lease, disposal of or other transfer of any assets that are individually or in the aggregate material to its business, whether tangible or intangible, other than the purchase or sale of inventory in the ordinary course of business consistent with its past practice,

(ii) any acquisition (by merger, consolidation or other combination, or acquisition of stock or assets, or otherwise) of any business or other Person or division thereof, or any sale or disposition of any business or division thereof;

(iii) any waiver, termination, cancellation, settlement or compromise of a valuable right, debt or claim;

(iv) any incurrence, creation, assumption, repayment, satisfaction, or discharge of (a) any material Lien (other than Permitted Liens) or (b) any Indebtedness or guarantee, or the making of any loan or advance (other than reasonable and normal advances to employees for bona fide expenses that are incurred in the ordinary course of business consistent with its past practice), or the making of any investment or capital contribution;

(v) any amendment to or termination of any Material Contract, any entering of any new Contract that would have been a Material Contract if in effect on the date hereof, or any amendment to or waiver under any Charter Document;

(vi) any material change in any compensation arrangement or Contract with any employee of any Group Company, or adoption of any new Benefit Plan, or made any material change in any existing Benefit Plan;

(vii) any declaration, setting aside or payment or other distribution in respect of any Equity Securities of any Group Company, or any issuance, transfer, redemption, purchase or acquisition of any Equity Securities by any Group Company;

(viii) any damage, destruction or loss, whether or not covered by insurance, adversely affecting the assets, properties, financial condition, operation or business of any Group Company;

(ix) any material change in accounting methods or practices or any revaluation of any of its assets;

---

(x) except in the ordinary course of business consistent with its past practice, entry into any agreement in respect of material Taxes, settlement of any claim or assessment in respect of any material Taxes, or Consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of any material Taxes, entry or change of any material Tax election, change of any method of accounting resulting in a material amount of additional Tax or filing of any material amended Tax Return;

(xi) any commencement or settlement of any material Action;

(xii) any authorization, sale, issuance, transfer, pledge or other disposition of any Equity Securities of any Group Company;

(xiii) any resignation or termination of any Key Employee of any Group Company or any material group of employees of any Group Company;

(xiv) any transaction with any Related Party; or

(xv) any agreement or commitment to do any of the things described in this Section 3.12.

**3.13 Actions.** There is no material Action pending or, to the Knowledge of the Warrantors, threatened against or affecting any Group Company or any of its officers, directors or employees with respect to its businesses or proposed business activities, or, to the Knowledge of the Warrantors, any officers, directors or employees of any Group Company in connection with such person's respective relationship with such Group Company, nor to the Knowledge of the Warrantors is there any basis for any of the foregoing. By way of example, but not by way of limitation, there are no Actions pending against any of the Group Companies or threatened against any of the Group Companies, relating to the use by any employee of any Group Company of any information, technology or techniques allegedly proprietary to any of their former employers, clients or other parties. There is no judgment or award unsatisfied against any Group Company, nor is there any Governmental Order in effect and binding on any Group Company or their respective assets or properties. There is no material Action pending by any Group Company against any third party nor does any Group Company intend to commence any such Action. No Governmental Authority has at any time challenged or questioned in writing the legal right of any Group Company to conduct in any material respect its business as presently being conducted.

**3.14 Liabilities.** No Group Company has any Liabilities of the type required to be disclosed on a balance sheet except for (i) liabilities set forth in the Financial Statements that have not been satisfied since the Statement Date, and (ii) current liabilities incurred since the Statement Date in the ordinary course of the Group's business consistent with its past practices and which do not exceed RMB500,000 in the aggregate. None of the Group Companies has any Indebtedness out of the ordinary course of the business that it has directly or indirectly created, incurred, assumed, or guaranteed, or with respect to which the Group Company has otherwise become directly or indirectly liable. None of the Group Companies is a guarantor or indemnitor of any Liabilities of any other Person other than those contemplated under the Transaction Documents.

---

### 3.15 Commitments.

(i) Section 3.15(i) of the Disclosure Schedule contains a complete and accurate list of all Material Contracts. “Material Contracts” means, collectively, each Contract to which a Group Company or any of its properties or assets is bound or subject to that (a) involves obligations (contingent or otherwise) or payments in excess of RMB500,000 or has an unexpired term in excess of one year, (b) involves Intellectual Property that is material to a Group Company (other than generally-available “off-the-shelf” shrink-wrap software licenses obtained by the Group on non-exclusive and non-negotiated terms), including without limitation, the Licenses, (c) restricts the ability of a Group Company to compete or to conduct or engage in any business or activity or in any territory, (d) relates to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any Equity Securities, (e) involves any provisions providing for exclusivity, “change in control”, “most favored nations”, rights of first refusal or first negotiation or similar rights, or grants a power of attorney, agency or similar authority, (f) is with a Related Party (including another Group Company), (g) involves indebtedness, an extension of credit, a guaranty, surety or assumption of any obligation or any secondary or contingent Liabilities, deed of trust, or the grant of a Lien, (h) involves the lease, license, sale, use, disposition or acquisition of a material amount of assets or of a business, (i) involves the waiver, compromise, or settlement of any material dispute, claim, litigation or arbitration, (j) involves the ownership or lease of, title to, use of, or any leasehold or other interest in, any real or personal property (except for personal property leases in the ordinary course of business and involving payments of less than RMB500,000), including without limitation, the Leases, (k) involves the establishment, contribution to, or operation of a partnership, joint venture, alliance or similar entity, or involving a sharing of profits or losses (including joint development and joint marketing Contracts), or any investment in, loan to or acquisition or sale of the securities, equity interests or assets of any Person, (l) is with a Governmental Authority, state-owned enterprise, or sole-source supplier of any material product or service (other than utilities), (m) is a Benefits Plan, or a collective bargaining agreement or is with any labor union or other representatives of the employees, (n) is a brokerage or finder’s agreement, or material sales agency, marketing or distributorship Contract, or (o) is otherwise material to a Group Company or is one on which a Group Company is substantially dependent.

(ii) A true, fully-executed copy of each Material Contract including all the amendments and supplements thereto (and a written summary of all terms and conditions of each non-written Material Contract) has been delivered to the Investors. Each Material Contract is a valid and binding agreement of the Group Company that is a party thereto, the performance of which does not and will not violate any applicable Law or Governmental Order, and is in full force and effect and enforceable against the parties thereto, except (a) as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors’ rights generally, and (b) as may be limited by Laws relating to the availability of specific performance, injunctive relief or other remedies in the nature of equitable remedies. Each Group Company has duly performed all of its obligations under each Material Contract to the extent that such obligations to perform have accrued, and no material breach or default, alleged material breach or alleged default, or event which would (with the passage of time, notice or both) constitute a material breach or default thereunder by such Group Company or, to the Knowledge of the Warrantors, any other party or obligor with respect thereto, has occurred, or as a result of the execution, delivery, and performance of the Transaction Documents will occur. No Group Company has given notice (whether or not written) that it intends to terminate a Material Contract or that any other party thereto has breached, violated or defaulted under any Material Contract in any material respect. No Group Company has received any notice (whether written or not) that it has breached, violated or defaulted under any Material Contract in any material respect or that any other party thereto intends to terminate such Material Contract.

---

**3.16 Anti-Bribery, Anti-Corruption, Anti-Money Laundering and Sanctions; Absence of Government Interests.**

(i) Each Group Company and other Warrantor and their respective directors, officers, employees, agents and other persons acting on their behalf (collectively, “Representatives”) are and have been in compliance with all applicable Laws relating to anti-bribery, anti-corruption, anti-money laundering, record keeping and internal control laws (collectively, the “Compliance Laws”). Furthermore, no Public Official (i) holds an ownership or other economic interest, direct or indirect, in any of the Group Companies or in the contractual relationship formed by this Agreement, or (ii) serves as an officer, director or employee of any Group Company. Without limiting the foregoing, neither any Group Company nor any Representative has, directly or indirectly, offered, authorized, promised, condoned, participated in, consummated, or received notice of any allegation of,

(a) the making of any gift or payment of anything of value to any Public Official by any Person to obtain any improper advantage, affect or influence any act or decision of any such Public Official, or assist any Group Company in obtaining or retaining business for, or with, or directing business to, any Person.

(b) the taking of any action by any Person which (i) would violate the FCPA, if taken by an entity subject to the FCPA, or (ii) could reasonably be expected to constitute a violation of any applicable Compliance Law, or

(c) the making of any false or fictitious entries in the books or records of any Group Company by any Person, or

(d) the using of any assets of any Group Company for the establishment of any unlawful or unrecorded fund of monies or other assets, or the making of any unlawful or undisclosed payment.

(ii) No Group Company or any of its Representatives has ever been found by a Governmental Authority to have violated any criminal or securities Law or is subject to any indictment or any government investigation for bribery. None of the beneficial owners of any Equity Securities or other interest in any Group Company or the current or former Representatives of any Group Company are or were Public Officials.

(iii) No Group Company or any of its Representatives is a Prohibited Person, and no Prohibited Person will be given an offer to become an employee, officer, consultant or director of any Group Company. No Group Company has conducted or agreed to conduct any business, or entered into or agreed to enter into any transaction with a Prohibited Person.

---

### 3.17 Title; Properties.

(i) **Title; Personal Property.** Each Group Company has good and valid title to all of its respective assets, whether tangible or intangible (including those reflected in the Financial Information, together with all assets acquired thereby since the incorporation of the Company, but excluding those that have been disposed of since the incorporation of the Company), in each case free and clear of all Liens, other than Permitted Liens. The foregoing assets collectively represent in all material respects all assets (including all rights and properties) necessary for the conduct of the business of each Group Company as presently conducted. Except for leased or licensed assets, no Person other than a Group Company owns any interest in any such assets. All leases of real or personal property to which a Group Company is a party are fully effective and afford the Group Company valid leasehold possession of the real or personal property that is the subject of the lease. All machinery, vehicles, equipment and other tangible personal property owned or leased by a Group Company are (a) in good condition and repair in all material respects (reasonable wear and tear excepted) and (b) not obsolete or in need in any material respect of renewal or replacement, except for renewal or replacement in the ordinary course of business. There are no facilities, services, assets or properties which are used in connection with the business of the Group and which are shared with any other Person that is not a Group Company.

(ii) **Real Property.** No Group Company owns or has legal or equitable title or other right or interest in any real property other than as held pursuant to Leases. Section 3.17(ii) of the Disclosure Schedule sets forth each leasehold interest pursuant to which any Group Company holds any real property (a "Lease"), indicating the parties to such Lease, the address of the property demised under the Lease, the rent payable under the Lease and the term of the Lease. The particulars of the Leases as set forth in Section 3.17(ii) of the Disclosure Schedule are true and complete. To the Knowledge of the Warrantors, the lessor under each Lease is qualified and has obtained all Consents necessary to enter into such Lease in all material respects, including without limitation any Consent required from the owner of the property demised pursuant to the Lease if the lessor is not such owner. There is no material claim asserted or, to the Knowledge of the Warrantors, threatened by any Person regarding the lessor's ownership of the property demised pursuant to each Lease. Each Lease is in compliance in all material respects with applicable Laws, including with respect to the ownership and operation of property and conduct of business as now conducted by the applicable Group Company which is a party to such Lease. Each Group Company which is party to a Lease has accepted possession of the property demised pursuant to the Lease and is in actual possession thereof and has not sublet, assigned or hypothecated its leasehold interest. No Group Company uses any real property in the conduct of its business except insofar as it has secured a Lease with respect thereto. The leasehold interests under the Leases held by each Group Company are adequate for the conduct of the business of such Group Company as currently conducted.

---

**3.18 Related Party Transactions.** Other than as set forth in Section 3.18 of the Disclosure Schedule, no Related Party has any Contract, understanding, or proposed transaction with, or is indebted to, any Group Company or has any direct or indirect interest in any Group Company other than as set forth in Section 3.2(i) of the Disclosure Schedule, nor is any Group Company indebted (or committed to make loans or extend or guarantee credit) to any Related Party (other than for accrued salaries, for the current pay period, reimbursable expenses or other standard employee benefits). No Related Party has any direct or indirect interest in any Person with which a Group Company is affiliated or with which a Group Company has a material business relationship (including any Person which purchases from or sells, licenses or furnishes to a Group Company any goods, intellectual or other property rights or services), or in any Contract to which a Group Company is a party or by which it may be bound or affected, and no Related Party directly or indirectly competes with, or has any interest in any Person that directly or indirectly competes with, any Group Company (other than ownership of less than one percent (1%) of the stock of publicly traded companies).

**3.19 Intellectual Property Rights.**

(i) **Company IP.** Each Group Company owns or otherwise has sufficient rights (including but not limited to the rights of development, maintenance, licensing and sale) to all Intellectual Property necessary and sufficient to conduct its business as currently conducted by such Group Company ("Company IP") without any known conflict with or known infringement of the rights of any other Person. Section 3.19(i) of the Disclosure Schedule sets forth a complete and accurate list of all Company Registered IP for each Group Company, including for each the relevant name or description, registration/certification or application number, and filing, registration or issue date.

(ii) **IP Ownership.** All Company Registered IP is owned by and registered or applied for solely in the name of a Group Company, is valid and subsisting and has not been abandoned, and all necessary registration, maintenance and renewal fees with respect thereto and currently due have been satisfied. No Group Company or any of its employees, officers or directors has taken any actions or failed to take any actions that would cause any Company Owned IP to be invalid, unenforceable or not subsisting. No funding or facilities of a Governmental Authority or a university, college, other educational institution or research center was used in the development of any material Company Owned IP. No material Company Owned IP is the subject of any Lien, license or other Contract granting rights therein to any other Person. No Group Company is or has been a member or promoter of, or contributor to, any industry standards bodies, patent pooling organizations or similar organizations that could require or obligate a Group Company to grant or offer to any Person any license or right to any material Company Owned IP. No Company Owned IP is subject to any proceeding or outstanding Governmental Order or settlement agreement or stipulation that (a) restricts in any manner the use, transfer or licensing thereof, or the making, using, sale, or offering for sale of any Group Company's products or services, by any Group Company, or (b) may affect the validity, use or enforceability of such Company Owned IP. Each Principal has assigned and transferred to a Group Company any and all of his/her Intellectual Property related to the Business. No Group Company has (i) transferred or assigned any material Company IP; (ii) authorized the joint ownership of, any material Company IP; or (iii) permitted the rights of any Group Company in any material Company IP to lapse or enter the public domain.

---

(iii) **Infringement, Misappropriation and Claims.** No Group Company has violated, infringed or misappropriated in any material respect any Intellectual Property of any other Person, nor has any Group Company received any written notice alleging any of the foregoing. To the Knowledge of the Warrantors, no Person has violated, infringed or misappropriated any material Company IP of any Group Company, and no Group Company has given any written notice to any other Person alleging any of the foregoing. No Person has challenged the ownership or use of any material Company IP by a Group Company. No Group Company has agreed to indemnify any Person for any infringement, violation or misappropriation of any Intellectual Property by such Person.

(iv) **Assignments and Prior IP.** All material inventions and material know-how conceived by employees of a Group Company related to the business of such Group Company are currently owned exclusively by a Group Company. All employees, contractors, agents and consultants of a Group Company who are or were involved in the creation of any Intellectual Property for such Group Company have executed an assignment of inventions agreement that vests in a Group Company exclusive ownership of all right, title and interest in and to such Intellectual Property, to the extent not already provided by Law. All employee inventors of Company Owned IP have received reasonable reward and remuneration from a Group Company for his/her service inventions or service technology achievements in accordance with the applicable PRC Laws. To the Knowledge of the Warrantors, it will not be necessary to utilize any Intellectual Property of any such Persons made prior to their employment by a Group Company, except for those that are exclusively owned by a Group Company, and none of such Intellectual Property has been utilized by any Group Company. To the Knowledge of the Warrantors, none of the employees, consultants or independent contractors, currently or previously employed or otherwise engaged by any Group Company, (a) is in violation of any current or prior confidentiality, non-competition or non-solicitation obligations to such Group Company or to any other Persons, including former employers, or (b) is obligated under any Contract, or subject to any Governmental Order, that would interfere with the use of his or her best efforts to promote the interests of the Group Companies or that would conflict with the business of such Group Company as presently conducted.

(v) **Licenses.** Section 3.19(v) of the Disclosure Schedule contains a complete and accurate list of the Licenses. The “Licenses” means, collectively, (a) all licenses, sublicenses, and other Contracts to which any Group Company is a party and pursuant to which any third party is authorized to use, exercise or receive any benefit from any material Company IP, and (b) all licenses, sublicenses and other Contracts to which any Group Company is a party and pursuant to which such Group Company is authorized to use, exercise, or receive any benefit from any material Intellectual Property of another Person, in each case except for (i) agreements involving “off-the-shelf” commercially available software, and (ii) non-exclusive licenses to customers of the Business in the ordinary course of business consistent with past practice. The Group Companies have paid all license and royalty fees required to be paid under the Licenses.

---

(vi) **Protection of IP.** Each Group Company has taken reasonable and appropriate steps to protect, maintain and safeguard material Company IP and made all applicable filings, registrations and payments of fees in connection with the foregoing. Without limiting the foregoing, all current and former officers, employees, consultants and independent contractors of any Group Company and all suppliers, customers, distributors, and other third parties having access to any material Company IP have executed and delivered to such Group Company an agreement requiring the protection of such Company IP. To the extent that any Company IP has been developed or created independently or jointly by an independent contractor or other third party for any Group Company, or is incorporated into any products or services of any Group Company, such Group Company has a written agreement with such independent contractor or third party and has thereby obtained ownership of, and is the exclusive owner of all such independent contractor's or third party's Intellectual Property in such work, material or invention by operation of law or valid assignment.

**3.20 Personal Data.** Each Group Company has taken reasonable and appropriate steps with respect to the collection, use, processing and transfer of any customer data, including personal data, and shall, and ensure that its Affiliates, employees, agents, and subcontractors shall: (i) comply at all times with all applicable data protection and privacy Laws; (ii) comply at all times with each Group Company's applicable privacy policy; (iii) comply with any reasonably practicable request made or direction given by the Investors in connection with any Group Company's or its Affiliate's obligations under any current and/or future data protection and privacy Laws; (iv) not do or permit anything to be done which might jeopardize or contravene the terms of any registration, notification, or authorization of any Governmental Authority under any data protection or privacy Laws; and (v) ensure that an adequate level of protection is provided for securing customer data at all times.

### **3.21 Labor and Employment Matters.**

(i) Each Group Company has entered into employment agreements with each person other than a Consultant who has or is providing services to it, and has complied in all material respects with all applicable Laws related to labor or employment, including provisions thereof relating to wages, hours, working conditions, benefits, retirement, social welfare, equal opportunity and collective bargaining. There is not pending or to the Knowledge of the Warrantors threatened, and there has not been since the incorporation of each Group Company, any material Action relating to the violation or alleged violation of any applicable Laws by such Group Company related to labor or employment, including any charge or complaint filed by an employee, Responsible Officer, or Licensed Representative with any Governmental Authority or any Group Company.

(ii) Section 3.21(ii) of the Disclosure Schedule contains a true and complete list of each Benefit Plan currently or previously adopted, maintained, or contributed to by any Group Company or under which any Group Company has any Liability or under which any employee or former employee of any Group Company has any present or future right to benefits. Except for required contributions or benefit accruals for the current plan year, no Liability has been or is expected to be incurred by any Group Companies under or pursuant to any applicable Laws relating to any Benefit Plan or individual employment compensation agreement, and, to the Knowledge of the Warrantors, no event, transaction or condition has occurred or exists that would result in any such Liability to any Group Companies. Each of the Benefit Plans listed in Section 3.21(ii) of the Disclosure Schedule is and has at all times been in compliance in material respects with all applicable Laws (including without limitation, SAFE Rules and Regulations, if applicable), and all contributions to, and payments for each such Benefit Plan have been timely made. There are no pending or threatened Actions involving any Benefit Plan listed in Section 3.21(ii) of the Disclosure Schedule (except for claims for benefits payable in the normal operation of any Benefit Plan). Except as set forth in the Disclosure Schedule, each Group Company maintains, and has fully funded, each Benefit Plan and any other labor-related plans that it is required by Law or by Contract to maintain. Each Group Company is in compliance in all material respects with all Laws and Contracts relating to its provision of any form of Social Insurance, and has paid, or made provision for the payment of, all Social Insurance contributions required under applicable Laws and Contracts.

---

(iii) There has not been, and there is not now pending or, to the Knowledge of the Warrantors, threatened, any strike, union organization activity, lockout, slowdown, picketing, or work stoppage or any unfair labor practice charge against any Group Company. No Group Companies is bound by or subject to (and none of their assets or properties is bound by or subject to) any written or oral Contract, commitment or arrangement with any labor union or any collective bargaining agreements.

(iv) Schedule III enumerates each Key Employee, along with each such individual's title and current compensation rate. Each such individual is currently devoting all of his or her business time to the conduct of the business of the applicable Group Company. No such individual is subject to any covenant restricting him/her from working for any Group Company. To the Knowledge of the Warrantors, no such individual is obligated under, or in material violation of any term of, any Contract or any Governmental Order relating to the right of any such individual to be employed by, or to contract with, such Group Company. No Group Company has received any notice alleging that any such violation has occurred. No such individual is currently working or, to the Knowledge of the Warrantors plans to work for any other Person that competes with any Group Company, whether or not such individual is or will be compensated by such Person. No such individual or any group of employees of any Group Company has given any notice of an intent to terminate their employment with any Group Company, nor does any Group Company have a present intention to terminate the employment of any such individual or any group of employees.

(v) None of the Group Companies receive services from, or have entered into any contracts to receive services from, Consultants.

**3.22 Insurance.** No Group Company has ever obtained any insurance policy or insurance coverage.

**3.23 Customers and Suppliers.** None of the Group Companies has any material customer or supplier which contributes revenues or receive payments in excess of RMB750,000. To the Knowledge of the Warrantors, business partners of the Group Companies can in all material respects provide sufficient and timely supplies of goods and services in order to meet the requirements of the Group's Business consistent with prior practice.

---

**3.24 Internal Controls.** Each Group Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions by it are executed in accordance with management's general or specific authorization, (ii) transactions by it are recorded as necessary to permit preparation of financial statements in conformity with the Accounting Standards and to maintain asset accountability, (iii) access to assets of it is permitted only in accordance with management's general or specific authorization, (iv) the recorded inventory of assets is compared with the existing tangible assets at reasonable intervals and appropriate action is taken with respect to any material differences, (v) segregating duties for cash deposits, cash reconciliation, cash payment, proper approval is established, and (vi) no personal assets or bank accounts of the employees, directors, officers are mingled with the corporate assets or corporate bank account, and no Group Company uses any personal bank accounts of any employees, directors, officers thereof during the operation of the business.

**3.25 Historical and Other Businesses.** No Group Company is subject to any outstanding obligation or any other Liability, contingent or otherwise, whether contractual, legal, or regulatory, or relating to litigation, employment, tax or otherwise, arising out of or related to (i) the photography business conducted, or the sharing of Futu SZ's website registration or Internet Content Provider number, by one or more of the Principals, Group Companies (or their predecessors-in-interest), or Affiliates, or (ii) Shenzhen Bairensi Investment Co., Ltd. (深圳市百仁思投资有限公司) (collectively, the "Other Businesses"). No Principal or Affiliate of a Principal engages in any Competitive Business Activity.

**3.26 Entire Business.** No Group Company shares or provides any facilities, operational services, assets or properties with or to any other entity which is not a Group Company.

**3.27 No Brokers.** Neither any Group Company nor any of its Affiliates has any Contract with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement or by any of the Transaction Documents, or has incurred any Liability for any brokerage fees, agents' fees, commissions or finders' fees in connection with any of the Transaction Documents or the consummation of the transactions contemplated therein.

**3.28 Futu Network.** Futu Network has not provided and is not providing any market data quotation services.

**3.29 Disclosure.** No representation or warranty by the Warrantors in this Agreement and no information or materials provided by the Warrantors to the Investors in connection with the negotiation or execution of this Agreement or any agreement contemplated hereby contains any untrue statement of a material fact, or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading. Except as set forth in this Agreement or the Disclosure Schedule, to the Knowledge of the Warrantors, there is no fact that the Company has not disclosed to the Investors in writing and of which any of its officers, directors or executive employees has knowledge and that has had or would reasonably be expected to have any Material Adverse Effect.

---

**4. Representations and Warranties of the Investors.** Each Investor hereby represents and warrants to the Company at the Closing that:

**4.1 Authorization.** The Investor has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and to carry out and perform its obligations thereunder. All the actions on the part of the Investor necessary for the authorization, execution and delivery of the Transaction Documents to which it is a party, have been taken or will be taken prior to the Closing. This Agreement has been duly executed and delivered by the Investor, enforceable against the Investor in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other Laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by Laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

**4.2 Subscribe for Own Account.** The applicable Preferred Shares being subscribed by the Investor and, if applicable, the Conversion Shares thereof will be subscribed for the Investor's own account, not as a nominee or agent, and not with a view to or in connection with the sale or distribution of any part thereof.

**4.3 Status of the Investor.** The Investor is either (i) an "accredited Investor" within the meaning of Securities and Exchange Commission ("SEC") Rule 501 of Regulation D, as presently in effect, under the Securities Act, or (ii) not a "U.S. person" as defined in Rule 902 of Regulation S of the Securities Act. The Investor has the knowledge, sophistication and experience necessary to make an investment decision like that involved in the subscription of the applicable Preferred Shares and can bear the economic risk of its investment in the Preferred Shares.

**4.4 Restricted Securities.** The Investor understands that the Series C Preferred Shares, Series C-1 Preferred Shares and the Conversion Shares are restricted securities within the meaning of Rule 144 under the Securities Act; that the Series C Preferred Shares, Series C-1 Preferred Shares and the Conversion Shares are not registered or listed publicly and must be held indefinitely unless they are subsequently registered or listed publicly or an exemption from such registration or listing is available.

**4.5 No Brokers.** Neither the Investor nor any of its Affiliates has any Contract with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement or by any of the Transaction Documents, and none of them has incurred any Liability for any brokerage fees, agents' fees, commissions or finders' fees in connection with any of the Transaction Documents or the consummation of the transactions contemplated therein.

---

**5. Conditions of the Investors' Obligations at the Closing.** The obligations of an Investor to consummate the applicable Closing under Article 2 of this Agreement are subject to the fulfillment, to the satisfaction of the Investor on or prior to the Closing, or waiver by such Investor, of the following conditions:

**5.1 Representations and Warranties.** Each of the representations and warranties of the Warrantors contained in Article 3 shall have been true and complete when made and shall be true and complete in material aspects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing, except in either case for those representations and warranties that address matters only as of a particular date, which representations will have been true and complete in material aspects as of such particular date.

**5.2 Performance.** Each Warrantor shall have performed and complied with all obligations and conditions contained in the Transaction Documents that are required to be performed or complied with by them, on or before the Closing.

**5.3 Authorizations.** All the Consents of any competent Governmental Authority or of any other Person that are required to be obtained by any Warrantor in connection with the consummation of the transactions contemplated by the Transaction Documents, including but not limited to those set out in Schedule VIII, and any other authorizations related to the lawful issuance and allotment of the Series C Preferred Shares and Series C-1 Preferred Shares, and any waivers of notice requirements, rights of first refusal, preemptive rights, put or call rights shall have been duly obtained and effective as of the Closing (to the extent such transactions are not specifically stated to be post-Closing obligations of the relevant Warrantor(s)), and evidence thereof shall have been delivered to the Investors.

**5.4 Proceedings and Documents.** All the corporate and other proceedings in connection with the transactions to be completed at the Closing and all documents incident thereto, including without limitation all corporate, legal, and management approvals of each of the Parties, and written approval from all of the then current holders of equity interests of each Group Company, as applicable, with respect to this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby, shall have been completed in the form and substance satisfactory to the Investors, and remain in full force as of the Closing, and the Investors shall have received all such counterpart original or other copies of such documents as it may reasonably request.

**5.5 Memorandum and Articles.** The Memorandum and Articles, in the forms attached hereto as Exhibit B-1 and Exhibit B-2, respectively, shall have been duly adopted by all necessary action of the Board of Directors and/or the members of the Company and will be duly filed with the appropriate authority(ies) of the Cayman Islands, and such adoption shall have become effective on or prior to the Closing with no alteration or amendment as of the Closing, and reasonable evidence thereof shall have been delivered to the Investors. The Charter Documents of each of the other Group Companies shall be in the form and substance reasonably satisfactory to the Investors.

**5.6 Due Diligence.** The Investors shall have completed its business, legal, and financial due diligence investigations on each Group Company, and the results of the due diligence investigation shall be satisfactory to the Investors in its sole discretion.

---

**5.7 Transaction Documents.** Each of the parties to the Transaction Documents, other than the Investors, shall have executed and delivered such Transaction Documents to the Investors.

**5.8 Confidentiality, Non-Competition, IPR and Non-Solicitation Agreements.** Each of the Key Employees shall have entered into a confidentiality, non-competition, intellectual property and inventions assignment agreement with the relevant Group Company substantially in the form and substance satisfactory to the Investor.

**5.9 Employment Agreements.** Each of the Key Employees shall have entered into an employment agreement with the relevant Group Company substantially in the form, and in substance, satisfactory to the Investors.

**5.10 Waiver Letter from DSB.** Futu Int'l HK shall have obtained a written waiver from DSB in terms of its undertaking that Li Hua's ownership of the shares in Futu Int'l HK (directly or indirectly) will not be less than 60%.

**5.11 No Material Adverse Effect.** There shall have been no Material Adverse Effect since the execution date of this Agreement.

**5.12 Closing Certificate.** The chief executive officer of the Company shall have executed and delivered to the Investors at the Closing a certificate dated as of the Closing (i) stating that the conditions specified in this Article 5 have been fulfilled as of the Closing, and (ii) attaching thereto (a) the Memorandum and Articles and (b) copies of all resolutions approved by the shareholders and/or boards of directors of each Group Company related to the transactions contemplated hereby.

**6. Conditions of the Company's Obligations at Closing.** The obligations of the Company to consummate the Closing under Section 2 of this Agreement, unless otherwise waived in writing by the Company, are subject to the fulfillment on or before the Closing of each of the following conditions:

**6.1 Representations and Warranties.** The representations and warranties of the Investors contained in Section 4 shall have been true and complete when made and shall be true and complete on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing, except in either case for those representations and warranties that address matters only as of a particular date, which representations will have been true and complete as of such particular date.

**6.2 Performance.** The Investors shall have performed and complied with all covenants, obligations and conditions contained in this Agreement that are required to be performed or complied with by the Investors on or before the Closing.

**7. Post-Closing Covenants.** The Warrantors undertake to take the following actions from and after the Closing:

**7.1 Business of the Group.** The business of each Group Company shall be restricted to the Business, unless otherwise approved by the Majority Preferred Holders of the Company.

---

**7.2 Operation of Business.** The Warrantors shall jointly and severally procure that each Group Company operates the Business to the extent as permitted by the Laws and obtains all licenses, permits, qualifications and other Governmental Authorizations as required for the Business or other current/further business conducted or to be conducted by it in accordance with the Laws.

**7.3 Most Favorable Terms.** If, within one (1) year after the Closing, (i) there is a bona fide financing of the Company, (ii) the valuation of the Company in connection with such financing does not exceed US\$825 million, and (iii) the Investors in such financing are granted any rights, preferences, privileges, or other terms which are new or are otherwise more favorable than those applicable or granted to the Investors under the Transaction Documents, then the Investors shall automatically have the right to enjoy such new or more favorable terms, rights, preferences, and/or privileges. The Warrantors agree that it shall take any and all actions necessary to ensure that this Section 7.3 is given its full effect.

**7.4 Tax Indemnity.** Each of the Warrantors shall, jointly and severally, indemnify and keep indemnified the Indemnitee (as defined below) at all times and hold them harmless against any and all Indemnifiable Losses (as defined below) resulting from, or arising out of, or due to, directly or indirectly, any claim in connection with the Tax issues which has been made against any Group Company wholly or partly in respect of or in consequence of any event of non-compliance with applicable Laws occurred prior to the Closing with respect to the Tax.

**7.5 Indemnification.** Each of the Warrantors (collectively “Indemnifying Parties”) hereby, jointly and severally, indemnify and hold harmless each Investor and their directors, officers, employees, affiliates, agents and assigns of such Investor (each, an “Indemnitee”; collectively, the “Indemnitees”), against any and all Indemnifiable Loss incurred by such Indemnitee, directly or indirectly, as a result of, or based upon or arising from (i) any inaccuracy in, breach of, or nonperformance of any of the representations, warranties, covenants or agreements made by the Warrantors in or pursuant to this Agreement, or (ii) any of the events set forth in Schedule VII (regardless of whether any such events have been identified in the Disclosure Schedule). Notwithstanding anything to the contrary: (a) the maximum aggregate monetary liability of the Warrantors to any particular Indemnitee for any indemnification under Sections 7.4 and 7.5 or under any other remedy shall in no event exceed the purchase price actually paid by such Indemnitee or its respective affiliate that is an Investor; and (b) if the Indemnifiable Loss (other than any Indemnifiable Loss relating to SAFE or SAFE Rules and Regulations) suffered by the Indemnitee is, individually or in the aggregate less than US\$1,000,000, none of the Warrantors has any obligation to indemnify the Indemnitee for such Indemnifiable Loss pursuant to this Section 7.5; provided that, once such Indemnifiable Loss is equal to or more than US\$1,000,000, whether individually or in the aggregate, the Warrantors shall be required to indemnify the Indemnified Party for the whole and entire amount of such Indemnifiable Loss.

**7.6 Post-Closing Restructuring Plan.** Each of the Warrantors shall jointly and severally procure the completion of each step of the Post-Closing Restructuring Plan set forth in Schedule VI (except for the completion of each Investor’s obligations under Step 5 thereof, as applicable) pursuant to the timeframes set forth therein and the Investors shall have received evidence thereof to their satisfaction.

---

**7.7 No Use of Name.** Without the prior written Consent of the relevant Investor, and whether or not it or any Affiliate thereof is then a shareholder of the Company, no Party hereto shall (or shall permit any Affiliate thereof to) use, publish or reproduce the name or logo of such Investor or its Affiliates or any similar name, trademark or logo in any manner, context or format (including references on or links to websites, in press releases, or in other public announcements).

**7.8 Accreditation of Trademarks and Logos.** Each of the Warrantors shall jointly and severally procure that, where any third party trademark or logo is used on any website or software operated or published by any Group Company, ownership of those trademarks and/or logos by such third parties is acknowledged in a written statement on the relevant website or in the relevant software.

**7.9 Termination of Loan Agreement.** Each of the Warrantors shall jointly and severally procure that the Company takes all actions and executes all documents necessary or desirable to effect the termination of the Loan Agreement immediately after Closing.

**7.10 Discharge of Deed of Charge.** Each of the Warrantors shall jointly and severally procure that Li Hua takes all actions and executes all documents necessary or desirable to effect the discharge of the Deed of Charge.

**7.11 Interest in Sub-Accounts.** Within 30 days of the Closing, Futu Int'l HK shall amend its agreements with the customers such that each customer expressly consents to the interest generated in sub-accounts under its trust account arrangement with Bank of China (Hong Kong) Limited being distributed to Futu Int'l HK, and obtain each customer's consent to the amendments above.

**7.12 Registers.** Within 30 days of the Closing, the Company shall provide to Tencent registers of members, registers of directors, and registers of transfer certified as true copies by each of Futu Int'l HK, Futu New HK and Futu Network's respective duly appointed company secretary.

**7.13 Personal Data Privacy Statement.** Within 30 days of the Closing, Futu Int'l HK shall amend its personal data privacy statement to be in a form acceptable to Tencent, and adopt practices in compliance with the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong).

**7.14 RMB Bridge Loan.** Within 60 days after the Closing, Futu SZ shall repay in full the principal and interest (if any) of the loan made under the Loan Agreement dated April 29, 2015 between Shenzhen Tencent Computer System Limited (深圳市腾讯计算机系统有限公司, as lender), Futu SZ (as borrower) and Li Hua (as guarantor) in the principal amount of RMB10,000,000. Each of Futu SZ and Li Hua shall do all acts necessary or desirable to terminate such loan agreement after repayment of the loan.

## **8. Miscellaneous**

**8.1 Further Assurances.** Upon the terms and subject to the conditions herein, each of the Warrantors hereto agrees to use its reasonable efforts to take or cause to be taken all action, to do or cause to be done, to execute such further instruments, and to assist and cooperate with the other Parties hereto in doing, all things necessary, proper or advisable under applicable Laws or otherwise to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement and the other Transaction Documents, provided that except as expressly provided herein, no Party shall be obligated to grant any waiver of any condition or other waiver hereunder.

---

**8.2 Successors and Assigns.** Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the Parties hereto whose rights or obligations hereunder are affected by such terms and conditions. This Agreement and the rights and obligations therein may not be assigned by any Warrantor without the prior written consent of the Investors. For the avoidance of doubt, the Investors may freely assign this Agreement to any Person, including any of their Affiliates. Nothing in this Agreement, express or implied, is intended to confer upon any Party other than the Parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

**8.3 Governing Law.** This Agreement shall be governed by and construed under the Laws of the Hong Kong without regard to principles of conflict of Laws thereunder.

**8.4 Dispute Resolution.** Any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or connected with this Agreement, including any dispute as to the construction, validity, interpretation, termination, enforceability or breach of this Agreement, as well as any dispute over arbitrability or jurisdiction (“Dispute”) shall be exclusively resolved through final and binding arbitration pursuant to this section, it being the intention of the parties that this is a broad form arbitration agreement designed to encompass all possible Disputes. The arbitration shall be administered by the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The seat of the arbitration shall be Hong Kong. The arbitral tribunal shall consist of three (3) arbitrators. The arbitration shall be conducted in the English language, and the arbitrators shall be fluent in the English language. The award of the Tribunal shall be final and binding. Judgment on the award may be entered in any court of competent jurisdiction.

**8.5 Termination.** Notwithstanding anything herein to the contrary, this Agreement may be terminated and the transaction abandoned at any time prior to the Closing (i) by mutual written consent of all the Parties, or (ii) by any Party with written notice to the other Parties if the Closing does not occur on or before June 30, 2017, or (iii) in the event a Party materially breaches this Agreement, by any other Party (a “Terminating Party”) with written notice of such termination to all other Parties; provided that the right to terminate this Agreement under this Section 8.5 shall not be available to (A) any Terminating Party who is then in breach of this Agreement or (B) any Terminating Party whose failure to fulfill in any respect any of its obligations under this Agreement has been the cause of, or materially contributed to, the material breach of this Agreement by such breaching Party. If any Party breaches this Agreement before the termination of this Agreement, such Party shall not be released from its obligations arising from such breach on termination. If this Agreement terminates, the Parties shall be released from their obligations under this Agreement, except in respect of any obligation stated, explicitly or otherwise, to continue to exist after the termination of this Agreement.

---

**8.6 Notices.** Any notice required or permitted pursuant to this Agreement shall be given in writing and shall be given either personally or by sending it by next-day or second-day courier service, fax, electronic mail or similar means to the address of the relevant Party as shown on Schedule V (or at such other address as such Party may designate by five (5) Business Days' advance written notice to the other Parties to this Agreement given in accordance with this Section). Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a written confirmation of delivery, and to have been effected at the earlier of (i) delivery (or when delivery is refused) and (ii) expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by fax or electronic mail, service of the notice shall be deemed to be effected by properly addressing, and sending such notice through a transmitting organization, with a written confirmation of delivery, and to have been effected on the day the same is sent as aforesaid, if such day is a Business Day and if sent during normal business hours of the recipient, otherwise the next Business Day. Notwithstanding the foregoing, to the extent a "with a copy to" address is designated, notice must also be given to such address in the manner above for such notice, request, consent or other communication hereunder to be effective.

**8.7 Survival of Representations and Warranties.** The representations and warranties of the Warrantors contained in this Agreement shall survive for a term of two (2) years after the consummation of the transactions contemplated hereby; provided, however, that each of the representations and warranties made in Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.9, and 3.11 shall survive indefinitely.

**8.8 Rights Cumulative.** Each and all of the various rights, powers and remedies of a party hereto will be considered to be cumulative with and in addition to any other rights, powers and remedies which such Party may have at Law or in equity in the event of the breach of any of the terms of this Agreement. The exercise or partial exercise of any right, power or remedy will neither constitute the exclusive election thereof nor the waiver of any other right, power or remedy available to such Party.

**8.9 Fees and Expenses.** The Company shall pay all of its own costs and expenses incurred in connection with the negotiation, execution, delivery and performance of this Agreement and other Transaction Documents and the transactions contemplated hereby and thereby. If any action at Law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

**8.10 Finder's Fee.** Each Investor agrees, severally and not jointly, to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Investor or any of its officers, partners, employees or representatives is responsible. Each Warrantor agrees, jointly and severally, to indemnify and hold harmless the Investor from any liability for any commission or compensation in the nature of a finders' fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

---

**8.11 Severability.** In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. If, however, any provision of this Agreement shall be invalid, illegal, or unenforceable under any such applicable Law in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such Law, or, if for any reason it is not deemed so modified, it shall be invalid, illegal, or unenforceable only to the extent of such invalidity, illegality, or limitation on enforceability without affecting the remaining provisions of this Agreement, or the validity, legality, or enforceability of such provision in any other jurisdiction.

**8.12 Amendments and Waivers.** Any term of this Agreement may be amended, only with the written consent of each of (i) the Company, (ii) Persons holding a majority of the Ordinary Shares, (iii) Persons who hold a majority of the Series C Preferred Shares and Series C-1 Preferred Shares (voting as a single class and on an as-converted basis) to be subscribed under this Agreement. Any amendment effected in accordance with this paragraph shall be binding upon each of the Parties hereto. Notwithstanding the foregoing, the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Party against whom such waiver is sought.

**8.13 No Waiver.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right, power or remedy power hereunder at any one or more times be deemed a waiver or relinquishment of such right, power or remedy at any other time or times.

**8.14 Exculpation and Waiver of Reliance Among Investors.** Each Investor acknowledges that it is not relying upon any Person other than the Principals, the Group Companies and their officers and directors in their capacities as such, in making its investment or decision to invest in the Company or in entering into this Agreement. Specifically, each Investor stipulates that it is not relying on any other Investor or any agents, legal counsel, or other professional advisers, or on any advice, representations, or work product of any of them. Each Investor agrees that no other Investor or the respective controlling persons, members, shareholders, officers, directors, partners, employees, agents, legal counsel, or other professional advisers of any other Investor shall be liable for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the issuance and allotment of the Series C Preferred Shares or Series C-1 Preferred Shares, or any transaction in connection with this Agreement or contemplated herein. Each Investor hereby waives any claim against, and covenants not to sue, any other Investor or the respective controlling persons, members, shareholders, officers, directors, partners, employees, agents, legal counsel, or other professional advisers of any Investor on account of any action heretofore or hereafter taken or omitted to be taken in connection with this Agreement or any transaction contemplated herein.

---

**8.15 Confidentiality.** The Parties acknowledge that the terms and conditions of this Agreement and the other Transaction Documents, and all exhibits, restatements and amendments hereto and thereto, including their existence, shall be considered confidential information and shall not be disclosed by the parties to any third party except with the prior written consent of each of the Investors and the Company; provided, however, such obligation of confidentiality shall not apply to (i) information which was in the public domain or otherwise known to the relevant Party before it was furnished to it by another Party hereto or, after it was furnished to that Party, entered the public domain otherwise than as a result of (A) a breach by that Party of this Section 8.5 or (B) a breach of a confidentiality obligation by the disclosing Party, where the breach was known to that Party; (ii) information the disclosure of which is necessary in order to comply with applicable Law, the order of any court, the requirements of a stock exchange or other governmental or regulatory authority or to obtain tax or other clearances or consents from any relevant authority; (iii) information disclosed by an Investor to a bona fide proposing purchaser of any Equity Securities of the Company; or (iv) information disclosed by the Company to its current or bona fide prospective investors or business partners, Affiliates and their respective employees, bankers, accountants or legal counsels who need to know such information, in each case only where such Persons are informed of the confidential nature of the such information and are under appropriate confidentiality obligations substantially similar to those set forth in this Section 8.5.

**8.16 Delays or Omissions.** No delay or omission to exercise any right, power or remedy accruing to any Party under this Agreement, upon any breach or default of any other Party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting Party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any Party of any breach or default under this Agreement, or any waiver on the part of any Party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing.

**8.17 No Presumption.** The Parties acknowledge that any applicable Law that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. If any claim is made by a Party relating to any conflict, omission or ambiguity in the provisions of this Agreement, no presumption or burden of proof or persuasion will be implied because this Agreement was prepared by or at the request of any Party or its counsel.

**8.18 Headings and Subtitles.** The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

---

**8.19 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.

**8.20 Entire Agreement.** This Agreement, the Transaction Documents, the binding provisions of the term sheet dated March 14, 2017 between the Company, Futu Int'l HK, Futu SZ, Li Hua and Qiantang River, together with all schedules and exhibits hereto and thereto, and any ancillary agreements between certain of the Parties in connection with the transactions contemplated under this Agreement constitute the full and entire understanding and agreement among the Parties with regard to the subjects hereof and thereof, and supersede all other agreements between or among any of the Parties with respect to the subject matters hereof and thereof.

**8.21 Use of English Language.** This Agreement has been executed and delivered in the English language. Any translation of this Agreement into another language shall have no interpretive effect. All documents or notices to be delivered pursuant to or in connection with this Agreement shall be in the English language or, if any such document or notice is not in the English language, accompanied by an English translation thereof, and the English language version of any such document or notice shall control for purposes thereof.

**8.22 Third Party Rights.** Unless expressly provided to the contrary in this Agreement, a person who is not a party has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the laws of Hong Kong) to enforce or to enjoy the benefit of any term of this Agreement.

*(The remainder of this page is left intentionally blank; signature page to follow)*

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**FUTU HOLDINGS LIMITED**

(富途控股有限公司)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU SECURITIES INTERNATIONAL (HONG KONG) LIMITED**

(富途证券国际(香港)有限公司)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU SECURITIES (HONG KONG) LIMITED**

(富途证券(香港)有限公司)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

**FUTU NETWORK TECHNOLOGY LIMITED**

(富途网络科技有限公司)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**SHENZHEN FUTU INTERNET TECHNOLOGY CO., LTD.**

(深圳市富途网络科技有限公司)

(Seal: /s/ Shenzhen Futu Internet Technology Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

**BEIJING FUTU INTERNET TECHNOLOGY CO., LTD.**

(北京市富途网络科技有限公司)

(Seal: /s/ Beijing Futu Internet Technology Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

**FUTU INTERNET TECHNOLOGY (SHENZHEN) CO., LTD.**

(富途网络科技(深圳)有限公司)

(Seal: /s/ Futu Internet Technology (Shenzhen) Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

**SHENZHEN SHIDAI FUTU CONSULTING LIMITED**

(深圳市时代富途咨询有限公司)

(Seal: /s/ Shenzhen Shidai Futu Consulting Limited)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**SHENZHEN QIANHAI FUZHITU INVESTMENT CONSULTING LIMITED**

(深圳市前海富之途投资咨询有限公司)

(Seal: /s/ Shenzhen Qianhai Fuzhitu Investment Consulting Limited)

By: /s/ Wu Biwei

Name: WU Biwei (邬必伟)

Title: Legal Representative

**SHEN SI INTERNET TECHNOLOGY (BEIJING) CO., LTD.**

(慎思网络技术(北京)有限公司)

(Seal: /s/ Shen Si Internet Technology (Beijing) Co., Ltd.)

By: /s/ Li Hua

Name: LI Hua (李华)

Title: Legal Representative

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

GROUP COMPANIES:

**FUTU INC.**

By: /s/ Li Hua  
Name: LI Hua (李华)  
Title: Director

**FUTU NZ LIMITED**

By: /s/ Chan Wingkei  
Name: Chan Wingkei  
Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

PRINCIPALS:

/s/ Li Hua

**LI HUA (李华)**

/s/ Li Lei

**LI LEI (李雷)**

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**QIANTANG RIVER INVESTMENT LIMITED**

By: /s/ MA Huateng

Name: MA Huateng

Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**IMAGE FRAME INVESTMENT (HK) LIMITED**  
意像架構投資（香港）有限公司

By: /s/ MA Huateng

Name: MA Huateng

Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**MATRIX PARTNERS CHINA III HONG KONG  
LIMITED**

By: /s/ Bo Shao

Name: Bo Shao

Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**SEQUOIA CAPITAL CV IV HOLDCO, LTD.**

By: /s/ Ip Siu Wai Eva

Name: Ip Siu Wai Eva

Title: Director

---

IN WITNESS WHEREOF, the Parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

INVESTOR:

**SCC VENTURE VI HOLDCO, LTD.**

By: /s/ Ip Siu Wai Eva

Name: Ip Siu Wai Eva

Title: Director

---

**SCHEDULE A****INVESTOR**

<u>Investor</u>	<u>No. of Series C or C-1 Preferred Shares</u>	<u>Consideration for Series C or C-1 Preferred Shares</u>
Image Frame	128,844,812 Series C Preferred Shares	US\$91,362,437, consisting of: (i) US\$67,430,230.86 in cash to be paid by Image Frame; and (ii) the Outstanding Credit Line as directed by Qiantang River, being (a) the conversion of the principal amount of US\$3,854,718.74 <sup>1</sup> (plus accrued but unpaid interest of US\$313,869.15 <sup>2</sup> ) under the Secured Convertible Note at the price per share of US\$0.71 and (b) the repayment of an outstanding principal amount of US\$19,273,593.72 <sup>3</sup> (plus accrued but unpaid interest of US\$490,024.52 <sup>4</sup> ) loaned by Qiantang River to the Company pursuant to the Loan Agreement.
Matrix	7,381,311 Series C-1 Preferred Shares	US\$7,613,100
SCC	4,843,971 Series C-1 Preferred Shares	US\$4,996,082

- 1 Being HK\$30,000,000 converted into US\$ at a rate of HK\$7.7827 for each US\$1.  
2 Being HK\$2,442,739.73 converted into US\$ at a rate of HK\$7.7827 for each US\$1.  
3 Being HK\$150,000,000 converted into US\$ at a rate of HK\$7.7827 for each US\$1.  
4 Being HK\$3,813,698.63 converted into US\$ at a rate of HK\$7.7827 for each US\$1.

---

**SCHEDULE I**

**LIST OF PRINCIPALS**

Name of Principals  
LI Hua (李华)  
LI Lei (李磊)

PRC ID Card  
Number

**SCHEDULE II**

**PART A**

**CAPITALIZATION TABLE PRIOR TO THE CLOSING**

**ON A FULLY DILUTED BASIS**

<b><u>Name of Shareholder</u></b>	<b><u>Number and Class of Shares Held (or Reserved)</u></b>	<b><u>Percentage of Shares</u></b>
Li Hua	403,750,000 Ordinary Shares	52.0536%
ESOP	135,032,132 Ordinary Shares (Reserved)	17.4091%
Qiantang River	89,285,500 Series A Preferred Shares 80,357,500 Series B Preferred Shares	11.5112% 10.3601%
Matrix	35,714,500 Series A Preferred Shares 4,870,000 Series B Preferred Shares	4.6045% 0.6279%
Sequoia Holdco	23,437,500 Series A-1 Preferred Shares 3,196,000 Series B Preferred Shares	3.0217% 0.4120%
	<b>775,643,132 shares, comprised of:</b>	
	<b>4,763,139,000 Ordinary Shares (of which 403,750,000 have been issued),</b>	
<b><u>TOTAL:</u></b>	<b>125,000,000 Series A Preferred Shares,</b> <b>23,437,500 Series A-1 Preferred Shares, and</b> <b>88,423,500 Series B Preferred Shares</b>	<b>100.0000%</b>

**SCHEDULE II**

**PART B**

**CAPITALIZATION TABLE AFTER THE CLOSING**

**ON A FULLY DILUTED BASIS**

<b>Name of Shareholder</b>	<b>Number and Class of Shares Held (or Reserved)</b>	<b>Percentage of Shares</b>
Li Hua	403,750,000 Ordinary Shares	44.0432%
ESOP	135,032,132 Ordinary Shares (Reserved)	14.7300%
Qiantang River	89,285,500 Series A Preferred Shares	9.7397%
	80,357,500 Series B Preferred Shares	8.7658%
Image Frame	128,844,812 Series C Preferred Shares	14.0551%
Matrix	35,714,500 Series A Preferred Shares	3.8959%
	4,870,000 Series B Preferred Shares	0.5312%
	7,381,311 Series C-1 Preferred Shares	0.8052%
Sequoia Holdco	23,437,500 Series A-1 Preferred Shares	2.5567%
	3,196,000 Series B Preferred Shares	0.3486%
SCC	4,843,971 Series C-1 Preferred Shares	0.5284%
	<b>916,713,226 shares, comprised of:</b>	
	<b>4,763,139,000 Ordinary Shares (of which 403,750,000 have been issued),</b>	
<b>TOTAL:</b>	<b>125,000,000 Series A Preferred Shares,</b>	<b>100.0000%</b>
	<b>23,437,500 Series A-1 Preferred Shares, and</b>	
	<b>88,423,500 Series B Preferred Shares</b>	
	<b>128,844,812 Series C Preferred Shares,</b>	
	<b>12,225,282 Series C-1 Preferred Shares</b>	

---

**SCHEDULE III**

---

**SCHEDULE IV**

---

**SCHEDULE V**

**ADDRESS FOR NOTICES**

**If to the Group Companies:**

Address: F9, Unit 3, Building C, Kexing Science Park, No.15, North Keyuan  
Road, Nanshan District, Shenzhen  
Tel: +86-755-86636688  
Fax: +86-755-86636388  
Attention: LI Hua (李华)

**If to the Principals:**

Address: F9, Unit 3, Building C, Kexing Science Park, No.15, North Keyuan  
Road, Nanshan District, Shenzhen  
Tel: +86-755-86636688  
Fax: +86-755-86636388  
Attention: LI Hua (李华)

**If to Qiantang River or Image Frame:**

Address:  
c/o Tencent Holdings Limited  
Level 29, Three Pacific Place  
1 Queen's Road East  
Wanchai, Hong Kong  
Attention: Compliance and Transactions Department  
Email: legalnotice@tencent.com

with a copy to:

Tencent Building, Keji Zhongyi Avenue,  
Hi-tech Park, Nanshan District,  
Shenzhen 518057, PRC  
Attention: Mergers and Acquisitions Department  
Email: PD\_Support@tencent.com

**If to Matrix:**

Address: Address: Flat 2807, 28/F, AIA Central, No.1 Connaught Road, Central,  
Hong Kong  
Tel: (852) 3651 6220  
Fax: (852) 3651 6111  
Attention: Matrix Partners HK Management Limited

---

**If to Sequoia Holdco or SCC:**

Address: 3613, 36/F, Two Pacific Place, 88 Queensway, Hong Kong  
Tel: +852-2501-8989  
Fax: +852-2501-5249  
Attention: Kok Wai Yee

---

**SCHEDULE VI**

---

## SCHEDULE VII

### SPECIFIC INDEMNITY EVENTS

1. Any of the following events, with respect to any Group Company or Principal:
  - a. (i) any failure to take measures for avoiding the acceptance of orders placed by U.S. Persons with respect to the trading of United States securities, or otherwise being subject to broker registration requirements, (ii) effecting securities transactions in the United States or on behalf of U.S. Persons, except as permitted by Rule 15a-6, or (iii) violating any applicable United States securities Laws;
  - b. any failure to comply with the applicable Laws with respect to the collection, use and safeguard of privacy and personal data in any Applicable Jurisdiction;
  - c. any failure to comply with the applicable Laws with respect to (i) Tax, (ii) accounting, (iii) overtime compensation in relation to the employees of any Group Company, (iv) contributions relating to employee Social Insurance or provident funds, (v) leasing of premises, or (vi) Intellectual Property, or analogous requirements under applicable Laws in any Applicable Jurisdiction.
  - d. any use, display and/or distribution of stock market data owned by HKEx, without obtaining any license or authorization from HKEx;
  - e. any hiring of unlicensed employees for soliciting the Business, solicitation of or conducting the Business in any Applicable Jurisdiction, or otherwise failing to comply with the SFO or other applicable Hong Kong Laws in connection with the conduct of the Business;
  - f. any solicitation of or executing the Business in the PRC without obtaining any required license or otherwise failing to comply with applicable CSRC, MOFCOM, AIC Laws or regulations;
  - g. any display or use of third party trademark or logos, without obtaining appropriate third party consents;
  - h. any sharing of the website registration or Internet Content Provider numbers with any other Group Company or a third party;
  - i. any failure to register Futu SZ's offices at locations other than its registered address with an SAIC's competent local branch;
  - j. any non-compliance of Circular 37 or any other SAFE Rules and Regulations with respect to SAFE registration, offshore investments, or cross-border fund flows;
  - k. any non-compliance with any Laws or regulations of any Applicable Jurisdiction relating to foreign exchange control;
  - l. any investigation or proceedings by the SFC in connection with the conduct of the Business by any Group Company, including in connection with any complaints relating to the Business as disclosed in Section 3.8(i) of the Disclosure Schedule;

- 
- m. any failure to comply with any applicable Laws in any Applicable Jurisdiction, including without limitation, any Laws relating to securities investment consultancy services, and security trading and brokerage services; or
  - n. any failure to comply with Series B transaction documents.
2. Any failure by any Group Company or their respective employees to obtain, or conduct the Business in compliance with, all of the Required Consents and other licenses, approvals, and consents for conducting the Business on websites and mobile apps in any Applicable Jurisdiction, including but not limited to following (to the extent applicable):
- a. the VAT Licenses;
  - b. a specific record-filing with a competent provincial branch of the Ministry of Industry and Information Technology of PRC, for running a bulletin board system (BBS);
  - c. an internet news and information services license (互联网新闻信息服务许可证) issued by a competent provincial branch of the State Council Information Office (国务院新闻办公室);
  - d. an internet publication license (互联网出版许可证) issued by the State Administration of Press, Publication, Radio, Film and Television (国家新闻出版广电总局);
  - e. an Internet culture business permit (网络文化经营许可证);
  - f. permit for security analyses services from the CSRC
  - g. permit for transmitting audio-visual programs via information network (信息网络传播视听节目许可证)
  - h. consents from any relevant third parties in respect of Futu SZ's display or use of such third party's trademark or logos; or
  - i. consents, approvals, and licenses required from the SFC in respect of the business conducted by Futu SZ.
3. Any Liabilities relating to the Other Businesses.

---

**SCHEDULE VIII**

**AUTHORIZATIONS**

1. In connection with the DS Facilities, a written waiver of Futu Int'l HK's undertaking that Li Hua's ownership of shares in Futu Int'l HK (directly or indirectly) will not be less than 60% from DSB;
2. shareholders' resolution and board resolution of each Group Company.

---

**EXHIBIT A**

---

**EXHIBIT B-1**

---

**EXHIBIT B-2**

---

**EXHIBIT C**

## Significant Subsidiaries and Consolidated Entity of the Registrant

<u>Subsidiary</u>	<u>Place of Incorporation</u>
Futu Financial Limited	Hong Kong
Futu Lending Limited	Hong Kong
Futu Network Technology Limited	Hong Kong
Futu Securities (Hong Kong) Limited	Hong Kong
Futu Securities International (Hong Kong) Limited	Hong Kong
Futu Inc.	the United States
Futu Clearing Inc.	the United States
Moomoo Inc.	the United States
Shensi Network Technology (Beijing) Co., Ltd.	PRC
Futu Network Technology (Shenzhen) Co., Ltd.	PRC
<u>Consolidated Variable Interest Entity</u>	<u>Place of Incorporation</u>
Shenzhen Futu Network Technology Co., Ltd.	PRC

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form F-1 of Futu Holdings Limited of our report dated October 19, 2018 relating to the financial statements of Futu Holdings Limited, which appears in this Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP

Shenzhen, the People’s Republic of China  
December 28, 2018

December 28, 2018

Futu Holdings Limited  
11/F, Bangkok Bank Building,  
No. 18 Bonham Strand W, Sheung Wan,  
Hong Kong S.A.R., People's Republic of China

Dear Sirs:

Pursuant to Rule 438 under the Securities Act of 1933, as amended, I hereby consent to the references to my name in the Registration Statement on Form F-1 (the "Registration Statement") of Futu Holdings Limited (the "Company") and any amendments thereto, which indicate that I have accepted the nomination to become a director of the Company. I further agree that immediately upon the United States Securities and Exchange Commission's declaration of effectiveness of the Registration Statement, I will serve as a member of the board of directors of the Company.

\* \* \*

---

Sincerely yours,

/s/ Vic Haixiang Li

Name: Vic Haixiang Li

*Signature Page to Consent of Independent*

December 28, 2018

Futu Holdings Limited  
11/F, Bangkok Bank Building,  
No. 18 Bonham Strand W, Sheung Wan,  
Hong Kong S.A.R., People's Republic of China

Dear Sirs:

Pursuant to Rule 438 under the Securities Act of 1933, as amended, I hereby consent to the references to my name in the Registration Statement on Form F-1 (the "Registration Statement") of Futu Holdings Limited (the "Company") and any amendments thereto, which indicate that I have accepted the nomination to become a director of the Company. I further agree that immediately upon the United States Securities and Exchange Commission's declaration of effectiveness of the Registration Statement, I will serve as a member of the board of directors of the Company.

\* \* \*

---

Sincerely yours,

/s/ Brenda Pui Man Tam

Name: Brenda Pui Man Tam

*Signature Page to Consent of Independent Director*

**FUTU HOLDINGS LIMITED**  
**CODE OF BUSINESS CONDUCT AND ETHICS**

**I. PURPOSE**

This Code of Business Conduct and Ethics (the “**Code**”) contains general guidelines for conducting the business of Futu Holdings Limited, a Cayman Islands company, and its subsidiaries and affiliates (collectively, the “**Company**”) consistent with the highest standards of business ethics, and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. To the extent this Code requires a higher standard than required by commercial practice or applicable laws, rules or regulations, we adhere to these higher standards.

This Code is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the U.S. Securities and Exchange Commission (the “**SEC**”) and in other public communications made by the Company;
- compliance with applicable laws, rules and regulations;
- prompt internal reporting of violations of the Code; and
- accountability for adherence to the Code.

**II. APPLICABILITY**

This Code applies to all directors, officers and employees of the Company, whether they work for the Company on a full-time, part-time, consultative or temporary basis (each, an “**employee**” and collectively, the “**employees**”). Certain provisions of the Code apply specifically to our chief executive officer, chief financial officer, senior financial officer, controller, senior vice presidents, vice presidents and any other persons who perform similar functions for the Company (each, a “**senior officer**,” and collectively, the “**senior officers**”).

The Board of Directors of the Company (the “**Board**”) has appointed Ching-Yee Joey Poon as the Compliance Officer for the Company (the “**Compliance Officer**”). If you have any questions regarding the Code or would like to report any violation of the Code, please email the Compliance Officer at [compliance@futunn.com](mailto:compliance@futunn.com).

This Code has been adopted by the Board and shall become effective (the “**Effective Time**”) upon the effectiveness of the Company’s registration statement on Form F-1 filed by the Company with the SEC relating to the Company’s initial public offering.

---

### III. CONFLICTS OF INTEREST

#### *Identifying Conflicts of Interest*

A conflict of interest occurs when an employee's private interest interferes, or appears to interfere, in any way with the interests of the Company as a whole. An employee should actively avoid any private interest that may impact such employee's ability to act in the interests of the Company or that may make it difficult to perform the employee's work objectively and effectively. In general, the following should be considered conflicts of interest:

- Competing Business. No employee may be employed by a business that competes with the Company or deprives it of any business.
- Corporate Opportunity. No employee should use corporate property, information or his/her position with the Company to secure a business opportunity that would otherwise be available to the Company. If an employee discovers a business opportunity that is in the Company's line of business through the use of the Company's property, information or position, the employee must first present the business opportunity to the Company before pursuing the opportunity in his/her individual capacity.
- Financial Interests.
  - (i) No employee may have any financial interest (ownership or otherwise), either directly or indirectly through a spouse or other family member, in any other business or entity if such interest adversely affects the employee's performance of duties or responsibilities to the Company, or requires the employee to devote time to it during such employee's working hours at the Company;
  - (ii) No employee may hold any ownership interest in a privately held company that is in competition with the Company;
  - (iii) An employee may hold up to 5% ownership interest in a publicly traded company that is in competition with the Company; provided that if the employee's ownership interest in such publicly traded company increases to more than 5%, the employee must immediately report such ownership to the Compliance Officer;
  - (iv) No employee may hold any ownership interest in a company that has a business relationship with the Company if such employee's duties at the Company include managing or supervising the Company's business relations with that company; and
  - (v) Notwithstanding the other provisions of this Code,
    - (a) a director or any family member of such director (collectively, "**Director Affiliates**") or a senior officer or any family member of such senior officer (collectively, "**Officer Affiliates**") may continue to hold his/her investment or other financial interest in a business or entity (an "**Interested Business**") that:

---

(1) was made or obtained either (x) before the Company invested in or otherwise became interested in such business or entity; or (y) before the director or senior officer joined the Company (for the avoidance of doubt, regardless of whether the Company had or had not already invested in or otherwise become interested in such business or entity at the time the director or senior officer joined the Company); or

(2) may in the future be made or obtained by the director or senior officer, provided that at the time such investment or other financial interest is made or obtained, the Company has not yet invested in or otherwise become interested in such business or entity;

provided that such director or senior officer shall disclose such investment or other financial interest to the Board;

(b) an interested director or senior officer shall refrain from participating in any discussion among senior officers of the Company relating to an Interested Business and shall not be involved in any proposed transaction between the Company and an Interested Business; and

(c) before any Director Affiliate or Officer Affiliate (i) invests, or otherwise acquires any equity or other financial interest, in a business or entity that is in competition with the Company; or (ii) enters into any transaction with the Company, the related director or senior officer shall obtain prior approval from the Audit Committee of the Board.

- Loans or Other Financial Transactions. No employee may obtain loans or guarantees of personal obligations from, or enter into any other personal financial transaction with, any company that is a material client, business partner or competitor of the Company. This guideline does not prohibit arms-length transactions with recognized banks or other financial institutions.
- Service on Boards and Committees. No employee shall serve on a board of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests could reasonably be expected to conflict with those of the Company. Employees must obtain prior approval from the Board before accepting any such board or committee position. The Company may revisit its approval of any such position at any time to determine whether an employee's service in such position is still appropriate.

The above is in no way a complete list of situations where conflicts of interest may arise. The following questions might serve as a useful guide in assessing a potential conflict of interest situation not specifically addressed above:

- Is the action to be taken legal?
- Is it honest and fair?

- 
- Is it in the best interests of the Company?

### ***Disclosure of Conflicts of Interest***

The Company requires that employees fully disclose any situations that could reasonably be expected to give rise to a conflict of interest. If an employee suspects that he/she has a conflict of interest, or a situation that others could reasonably perceive as a conflict of interest, the employee must report it immediately to the Compliance Officer. Conflicts of interest may only be waived by the Board, or the appropriate committee of the Board, and will be promptly disclosed to the public to the extent required by law and applicable rules of the applicable stock exchange.

### ***Family Members and Work***

The actions of family members outside the workplace may also give rise to conflicts of interest because they may influence an employee's objectivity in making decisions on behalf of the Company. If a member of an employee's family is interested in doing business with the Company, the criteria as to whether to enter into or continue the business relationship and the terms and conditions of the relationship must be no less favorable to the Company compared with those that would apply to an unrelated party seeking to do business with the Company under similar circumstances.

Employees should report any situation involving family members that could reasonably be expected to give rise to a conflict of interest to their supervisor or the Compliance Officer. For purposes of this Code, "family members" or "members of employee's family" include an employee's spouse, parents, children and siblings, whether by blood, marriage or adoption or anyone residing in such employee's home.

## **IV. GIFTS AND ENTERTAINMENT**

The giving and receiving of appropriate gifts may be considered common business practice. Appropriate business gifts and entertainment are welcome courtesies designed to build relationships and understanding among business partners. However, gifts and entertainment should never compromise, or appear to compromise, an employee's ability to make objective and fair business decisions.

It is the responsibility of employees to use good judgment in this area. As a general rule, employees may give or receive gifts or entertainment to or from clients or business partners only if the gift or entertainment is in compliance with applicable law, insignificant in amount and not given in consideration or expectation of any action by the recipient. All gifts and entertainment expenses made on behalf of the Company must be properly accounted for on expense reports.

We encourage employees to submit gifts received to the Company. While it is not mandatory to submit small gifts, gifts of over US\$100 must be submitted immediately to the human resources department of the Company.

Bribes and kickbacks are criminal acts, strictly prohibited by law. An employee must not offer, give, solicit or receive any form of bribe or kickback anywhere in the world.

---

## **V. FCPA COMPLIANCE**

The U.S. Foreign Corrupt Practices Act (“FCPA”) prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. A violation of FCPA does not only violate the Company’s policy but also constitute a civil or criminal offense under FCPA which the Company is subject to after the Effective Time. No employee shall give or authorize directly or indirectly any illegal payments to government officials of any country. While the FCPA does, in certain limited circumstances, allow nominal “facilitating payments” to be made, any such payment must be discussed with and approved by an employee’s supervisor in advance before it can be made.

## **VI. PROTECTION AND USE OF COMPANY ASSETS**

Employees should protect the Company’s assets and ensure their efficient use for legitimate business purposes only. Theft, carelessness and waste have a direct impact on the Company’s profitability. Any use of the funds or assets of the Company, whether for personal gain or not, for any unlawful or improper purpose is strictly prohibited.

To ensure the protection and proper use of the Company’s assets, each employee should:

- exercise reasonable care to prevent theft, damage or misuse of the Company’s assets;
- promptly report any actual or suspected theft, damage or misuse of the Company’s assets;
- safeguard all electronic programs, data, communications and written materials from unauthorized access; and
- use the Company’s assets only for legitimate business purposes.

Except as approved in advance by the Chief Executive Officer or Chief Financial Officer of the Company, the Company prohibits political contributions (directly or through trade associations) by any employee on behalf of the Company. Prohibited political contributions include:

- any contributions of the Company’s funds or other assets for political purposes;
- encouraging individual employees to make any such contribution; and
- reimbursing an employee for any political contribution.

## **VII. INTELLECTUAL PROPERTY AND CONFIDENTIALITY**

Employees should abide by the Company’s rules and policies in protecting the intellectual property and confidential information, including the following:

- 
- All inventions, creative works, computer software, and technical or trade secrets developed by an employee in the course of performing the employee's duties or primarily through the use of the Company's assets or resources while working at the Company shall be the property of the Company.
  - Employees should maintain the confidentiality of information entrusted to them by the Company or entities with which the Company has business relations, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that might be of use to competitors, or harmful to the company or its business associates, if disclosed.
  - The Company maintains a strict confidentiality policy. During an employee's term of employment with the Company, the employee shall comply with any and all written or unwritten rules and policies concerning confidentiality and shall fulfill the duties and responsibilities concerning confidentiality applicable to the employee.
  - In addition to fulfilling the responsibilities associated with his/her position in the Company, an employee shall not, without obtaining prior approval from the Company, disclose, announce or publish trade secrets or other confidential business information of the Company, nor shall an employee use such confidential information outside the course of his/her duties to the Company.
  - Even outside the work environment, an employee must maintain vigilance and refrain from disclosing important information regarding the Company or its business, business associates or employees.
  - An employee's duty of confidentiality with respect to the confidential information of the Company survives the termination of such employee's employment with the Company for any reason until such time as the Company discloses such information publicly or the information otherwise becomes available in the public sphere through no fault of the employee.
  - Upon termination of employment, or at such time as the Company requests, an employee must return to the Company all of its property without exception, including all forms of medium containing confidential information, and may not retain duplicate materials.

#### **VIII. ACCURACY OF FINANCIAL REPORTS AND OTHER PUBLIC COMMUNICATIONS**

Upon the Effective Time, the Company will be required to report its financial results and other material information about its business to the public and the SEC. It is the Company's policy to promptly disclose accurate and complete information regarding its business, financial condition and results of operations. Employees must strictly comply with all applicable standards, laws, regulations and policies for accounting and financial reporting of transactions, estimates and forecasts. Inaccurate, incomplete or untimely reporting will not be tolerated and can severely damage the Company and result in legal liability.

---

Employees should be on guard for, and promptly report, any possibility of inaccurate or incomplete financial reporting. Particular attention should be paid to:

- Financial results that seem inconsistent with the performance of the underlying business;
- Transactions that do not seem to have an obvious business purpose; and
- Requests to circumvent ordinary review and approval procedures.

The Company's senior financial officers and other employees working in the finance department have a special responsibility to ensure that all of the Company's financial disclosures are full, fair, accurate, timely and understandable. Any practice or situation that might undermine this objective should be reported to the Compliance Officer.

Employees are prohibited from directly or indirectly taking any action to coerce, manipulate, mislead or fraudulently influence the Company's independent auditors for the purpose of rendering the financial statements of the Company materially misleading. Prohibited actions include but are not limited to:

- issuing or reissuing a report on the Company's financial statements that is not warranted in the circumstances (due to material violations of U.S. GAAP, generally accepted auditing standards or other professional or regulatory standards);
- not performing audit, review or other procedures required by generally accepted auditing standards or other professional standards;
- not withdrawing an issued report when withdrawal is warranted under the circumstances; or
- not communicating matters required to be communicated to the Company's Audit Committee.

## **IX. COMPANY RECORDS**

Accurate and reliable records are crucial to the Company's business and form the basis of its earnings statements, financial reports and other disclosures to the public. The Company's records are a source of essential data that guides business decision-making and strategic planning. Company records include, but are not limited to, booking information, payroll, timecards, travel and expense reports, e-mails, accounting and financial data, measurement and performance records, electronic data files and all other records maintained in the ordinary course of business.

All Company records must be complete, accurate and reliable in all material respects. There is never an acceptable reason to make false or misleading entries. Undisclosed or unrecorded funds, payments or receipts are strictly prohibited. An employee is responsible for understanding and complying with the Company's recordkeeping policy. An employee should contact the Compliance Officer if he/she has any questions regarding the recordkeeping policy.

---

## **X. COMPLIANCE WITH LAWS AND REGULATIONS**

Each employee has an obligation to comply with the laws of the cities, provinces, regions and countries in which the Company operates. This includes, without limitation, laws covering commercial bribery and kickbacks, patent, copyrights, trademarks and trade secrets, information privacy, insider trading, offering or receiving gratuities, employment harassment, environmental protection, occupational health and safety, false or misleading financial information, misuse of corporate assets and foreign currency exchange activities. Employees are expected to understand and comply with all laws, rules and regulations that apply to their positions at the Company. If any doubt exists about whether a course of action is lawful, the employee should seek advice immediately from the Compliance Officer.

## **XI. DISCRIMINATION AND HARASSMENT**

The Company is firmly committed to providing equal opportunity in all aspects of employment and will not tolerate any illegal discrimination or harassment based on race, ethnicity, religion, gender, age, national origin or any other protected class. For further information, employees should consult the Compliance Officer.

## **XII. FAIR DEALING**

Each employee should endeavor to deal fairly with the Company's clients, business partners, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

## **XIII. HEALTH AND SAFETY**

The Company strives to provide employees with a safe and healthy work environment. Each employee has responsibility for maintaining a safe and healthy workplace for other employees by following environmental, safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Violence or threats of violence are not permitted.

Each employee is expected to perform his/her duty to the Company in a safe manner, not under the influence of alcohol, illegal drugs or other controlled substances. The use of illegal drugs or other controlled substances in the workplace is prohibited.

## **XIV. VIOLATIONS OF THE CODE**

All employees have a duty to report any known or suspected violation of this Code, including any violation of laws, rules, regulations or policies that apply to the Company. Reporting a known or suspected violation of this Code by others will not be considered an act of disloyalty, but an action to safeguard the reputation and integrity of the Company and its employees.

---

If an employee knows of or suspects a violation of this Code, it is such employee's responsibility to immediately report the violation to the Compliance Officer, who will work with the employee to investigate his/her concern. All questions and reports of known or suspected violations of this Code will be treated with sensitivity and discretion. The Compliance Officer and the Company will protect the employee's confidentiality to the extent possible, consistent with the law and the Company's need to investigate the employee's concern.

It is the Company's policy that any employee who violates this Code will be subject to appropriate discipline, including termination of employment, based upon the facts and circumstances of each particular situation. An employee's conduct, if it does not comply with the law or with this Code, can result in serious consequences for both the employee and the Company.

The Company strictly prohibits retaliation against an employee who, in good faith, seeks help or reports known or suspected violations. An employee inflicting reprisal or retaliation against another employee for reporting a known or suspected violation will be subject to disciplinary action, including termination of employment.

#### **XV. WAIVERS OF THE CODE**

Waivers of this Code will be granted on a case-by-case basis and only in extraordinary circumstances. Waivers of this Code may be made only by the Board, or the appropriate committee of the Board, and may be promptly disclosed to the public if so required by applicable laws and regulations and rules of the applicable stock exchange.

#### **XVI. CONCLUSION**

This Code contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics. If employees have any questions about these guidelines, they should contact the Compliance Officer. We expect all employees to adhere to these standards. Each employee is separately responsible for his/her actions. Conduct that violates the law or this Code cannot be justified by claiming that it was ordered by a supervisor or someone in higher management positions. If an employee engages in conduct prohibited by the law or this Code, such employee will be deemed to have acted outside the scope of his/her employment. Such conduct will subject the employee to disciplinary action, including termination of employment.

\*\*\*\*\*



澄明律師

上海澄明則正  
律師事務所021-52526819  
www.cm-law.com.cn上海金沙江路788號  
5層526室

December 28, 2018

Futu Holdings Limited  
11/F, Bangkok Bank Building  
Bonham Strand W, Sheung Wan  
Hong Kong S.A.R., People's Republic of China

Dear Sir or Madam,

We are qualified lawyers of the People's Republic of China (the "PRC" or "China", for the purpose of this opinion only, the PRC shall not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) and as such are qualified to issue this opinion on the laws and regulations of the PRC effective as of the date hereof.

We act as the PRC counsel to Futu Holdings Limited (the "Company"), a company incorporated under the laws of the Cayman Islands, in connection with (i) the proposed initial public offering (the "Offering") of certain number of American depository shares ("Offered ADSs"), each Offered ADS representing certain number of Class A ordinary shares of the Company (the "Ordinary Shares"), by the Company as set forth in the Company's registration statement on Form F-1, including all amendments or supplements thereto (the "Registration Statement"), filed by the Company with the Securities and Exchange Commission under the U.S. Securities Act of 1933 (as amended) in relation to the Offering, and (ii) the Company's proposed listing of the Offered ADSs on the NASDAQ Global Market.

#### A. Documents and Assumptions

In rendering this opinion, we have examined originals or copies of the due diligence documents provided to us by the Company and the PRC Operating Companies and such other documents, corporate records and certificates issued by the governmental authorities in the PRC (collectively the "Documents").

In rendering this opinion, we have assumed without independent investigation that (the "Assumptions"):

- (i) All signatures, seals and chops are genuine, each signature on behalf of a party thereto is that of a person duly authorized by such party to execute the same, all Documents submitted to us as originals are authentic, and all Documents submitted to us as certified or photostatic copies conform to the originals;
- (ii) Each of the parties to the Documents, other than the PRC Operating Companies, (i) if a legal person or other entity, is duly organized and is validly existing in good standing under the laws of its jurisdiction of organization and/or incorporation; or (ii) if an individual, has full capacity for civil conduct; each of them, other than the PRC Operating Companies, has full power and authority to execute, deliver and perform its obligations under the Documents to which it is a party in accordance with the laws of its jurisdiction of organization or incorporation or the laws that it/she/he is subject to;

- (iii) The Documents that were presented to us remain in full force and effect on the date of this opinion and have not been revoked, amended or supplemented, and no amendments, revisions, supplements, modifications or other changes have been made, and no revocation or termination has occurred, with respect to any of the Documents after they were submitted to us for the purposes of this legal opinion;
- (iv) The laws of jurisdictions other than the PRC which may be applicable to the execution, delivery, performance or enforcement of the Documents are complied with; and
- (v) All requested Documents have been provided to us and all factual statements made to us by the Company and the PRC Operating Companies in connection with this legal opinion are true, correct and complete.

## B. Definitions

In addition to the terms defined in the context of this opinion, the following capitalized terms used in this opinion shall have the meanings ascribed to them as follows.

<u>Beijing WFOE</u>	means	Shensi Network Technology (Beijing) Co., Ltd. (慎思网络技术(北京)有限公司)
<u>M&amp;A Rules</u>	means	The <i>Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors</i> promulgated by six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange, which became effective on September 8, 2006 and was amended on June 22, 2009 by the Ministry of Commerce.

<u>PRC Operating Companies</u>	means	Beijing WFOE, Futu Network Technology (Shenzhen) Co., Ltd. (富途网络科技(深圳)有限公司), Shenzhen Qianhai Fuzhitu Investment Consulting Management Co., Ltd. (深圳市前海富之途投资咨询有限公司), Shenzhen Shidai Futu Consulting Co., Ltd. (深圳市时代富途咨询有限公司), VIE and Beijing Futu Network Technology Co., Ltd. (北京市富途网络科技有限公司)
<u>PRC Laws</u>	means	all applicable national, provincial and local laws, regulations, rules, notices, orders, decrees and supreme court's judicial interpretations of the PRC currently in effect and publicly available on the date of this opinion.
<u>PRC Material Subsidiaries</u>	means	Beijing WFOE, Futu Network Technology (Shenzhen) Co., Ltd. (富途网络科技(深圳)有限公司), Shenzhen Qianhai Fuzhitu Investment Consulting Management Co., Ltd. (深圳市前海富之途投资咨询有限公司), Shenzhen Shidai Futu Consulting Co., Ltd. (深圳市时代富途咨询有限公司)
<u>VIE</u>	means	Shenzhen Futu Network Technology Co., Ltd. (深圳市富途网络科技有限公司)
<u>VIE Agreements</u>	means	various agreements listed in Schedule I attached hereto.

### C. Opinions

Based on our review of the Documents and subject to the Assumptions and the Qualifications, we are of the opinion that:

(i) Corporate Structure. The descriptions of the corporate structure and contractual arrangements of the PRC Operating Companies as set forth in the Registration Statement under the captions "Prospectus Summary" and "Corporate History and Structure" are true and accurate in all material respects and nothing has been omitted from such description which would make it misleading in any material respect. The corporate structure of the Company (including the ownership structure of the Company and each of the PRC Operating Companies, individually or in the aggregate), is in compliance with the PRC Laws. Based on our understanding of the PRC Laws, each of the VIE Agreements is legal, valid and binding, and enforceable in accordance with its terms and applicable PRC Laws. However, there are substantial uncertainties regarding the interpretation and application of PRC Laws, and there can be no assurance that the PRC government will ultimately take a view that is consistent with our opinion stated above.

(ii) M&A Rules. Based on our understanding of the explicit provisions of the PRC Laws as of the date hereof, given that (a) Beijing WFOE was established by means of direct investment rather than by a merger with or an acquisition of any PRC domestic companies as defined under the M&A Rules; (b) no explicit provision in the M&A Rules classifies the respective contractual arrangements among Beijing WFOE, the VIE and their shareholders as a type of acquisition transaction falling under the M&A Rules, (c) the China Securities Regulatory Commission currently has not issued any definitive rule or interpretation concerning whether the Offerings are subject to the M&A Rules; and we are of the opinion that M&A Rules and related regulations do not require that the Company obtain prior approval from the China Securities Regulatory Commission for the listing and trading of the ADSs on the Nasdaq Global Market. However, there are substantial uncertainties as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering and our opinions stated above are subject to any new PRC Laws or detailed implementations and interpretations in any form relating to the M&A Rules, and there can be no assurance that the PRC government will ultimately take a view that is consistent with our opinion stated above.

(iii) Enforceability of Civil Procedures. The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other form of reciprocity with the United States or the Cayman Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against a company or its directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or the Cayman Islands.

(iv) Taxation. The statements set forth in the Registration Statement under the caption “Taxation—PRC Taxation” with respect to the PRC tax laws and regulations, constitute true and accurate descriptions of the matters described therein in all material aspects, and constitute our opinion to the material tax consequences of an investment in the ADSs under the PRC Laws.

(v) PRC Laws. All statements set forth in the Registration Statement under the captions “Prospectus Summary”, “Risk Factors,” “Dividend Policy”, “Related Party Transactions”, “Business”, “Corporate History and Structure”, “Regulation”, “Enforceability of Civil Liabilities”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in each case insofar as such statements describe or summarize PRC legal or regulatory matters, are true and accurate in all material aspects, and correctly set forth therein, and nothing has been omitted from such statements which would make the same misleading in all material aspects.

Our opinion expressed above is subject to the following qualifications (the “Qualifications”):

- (i) Our opinion is limited to the PRC Laws of general application on the date hereof. We have made no investigation of, and do not express or imply any views on, the laws of any jurisdiction other than the PRC;
- (ii) The PRC Laws referred to herein are laws and regulations publicly available and currently in force on the date hereof and there is no guarantee that any of such laws and regulations, or the interpretation or enforcement thereof, will not be changed, amended or revoked in the future with or without retrospective effect;
- (iii) Our opinion is subject to the effects of (i) certain legal or statutory principles affecting the enforceability of contractual rights generally under the concepts of public interest, social ethics, national security, good faith, fair dealing, and applicable statutes of limitation; (ii) any circumstance in connection with formulation, execution or performance of any legal documents that would be deemed materially mistaken, clearly unconscionable, fraudulent, coercive or concealing illegal intentions with a lawful form; (iii) judicial discretion with respect to the availability of specific performance, injunctive relief, remedies or defenses, or calculation of damages; and (iv) the discretion of any competent PRC legislative, administrative or judicial bodies in exercising their authority in the PRC;
- (iv) This opinion is issued based on our understanding of the PRC Laws. For matters not explicitly provided under the PRC Laws, the interpretation, implementation and application of the specific requirements under the PRC Laws are subject to the final discretion of competent PRC legislative, administrative and judicial authorities, and there can be no assurance that the government agencies will ultimately take a view that is not contrary to our opinion stated above;
- (v) We may rely, as to matters of fact (but not as to legal conclusions), to the extent we deem proper, on certificates and confirmations of responsible officers of the PRC Operating Companies and PRC government officials;
- (vi) This opinion is intended to be used in the context which is specifically referred to herein; and
- (vii) As used in this opinion, the expression “to our best knowledge” or similar language with reference to matters of fact refers to the current actual knowledge of the attorneys of this firm who have worked on matters for the Company in connection with the Offering and the transactions contemplated thereunder. We have not undertaken any independent investigation to determine the existence or absence of any fact, and no inference as to our knowledge of the existence or absence of any fact should be drawn from our representation of the Company or the rendering of this opinion.



澄明律师

上海澄明则正  
律师事务所

021-52526819  
www.cm-law.com.cn

上海金沙江路788号  
5层526室

We hereby consent to the use of this opinion in, and the filing hereof as an exhibit to, the Registration Statement, and to the reference to our name in such Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ CM Law Firm  
CM Law Firm

**Schedule I****VIE Agreements**

1. Second Amended and Restated Exclusive Technology Consulting and Services Agreement among Beijing WFOE and VIE dated September 28, 2018;
2. Second Amended and Restated Business Operation Agreement among Beijing WFOE, VIE, Mr. Li Hua and Mrs. Li Lei dated September 28, 2018;
3. Second Amended and Restated Shareholders' Voting Rights Proxy Agreement among Beijing WFOE, VIE, Mr. Li Hua and Mrs. Li Lei dated September 28, 2018;
4. Second Amended and Restated Exclusive Option Agreement among Beijing WFOE, VIE, Mr. Li Hua and Mrs. Li Lei dated September 28, 2018;
5. Second Amended and Restated Equity Interest Pledge Agreement among Beijing WFOE, VIE and Mr. Li Hua dated September 28, 2018;
6. Second Amended and Restated Equity Interest Pledge Agreement among Beijing WFOE, VIE and Mrs. Li Lei dated September 28, 2018;
7. Spouse Consent Letters of respective spouse of Mr. Li Hua and Mrs. Li Lei dated September 28, 2018.

CONSENT OF OLIVER WYMAN INC.

Oliver Wyman, Inc. hereby consents to (i) references to our name, (ii) inclusion of information and data contained in our report entitled "ONLINE RETAIL SECURITIES MARKET" (together with any subsequent amendments made by us thereto, the "Report") and (iii) citation of the Report, in each case, in this Registration Statement on Form F-1 (and in all subsequent amendments) in connection with the proposed initial public offering of Futu Holdings Limited (the "Company"), in the prospectus contained therein, and in any other future filings or correspondence with the U.S. Securities and Exchange Commission (the "SEC"). We further hereby consent to the filing of this letter as an exhibit to such Registration Statement and any amendments thereto with the SEC.

/s/ Cliff Sheng

---

Name: Cliff Sheng

Title: Partner

Oliver Wyman, Inc.

Room 904, Central Plaza

18 Harbor Road

Wanchai

Hong Kong

**Futu Holdings Limited**  
11/F, Bangkok Bank Building  
No. 18 Bonham Strand W, Sheung Wan  
Hong Kong S.A.R.  
The People's Republic of China

December 28, 2018

**Re: Futu Holdings Limited – Registration Statement on Form F-1  
Representation under Item 8.A.4 of Form 20-F (“Item 8.A.4”)**

Futu Holdings Limited, a foreign private issuer organized under the laws of the Cayman Islands (the “**Company**”), is making this representation in connection with the Company’s filing on the date hereof of its registration statement on Form F-1 (the “**Registration Statement**”) relating to a proposed initial public offering in the United States of the Company’s ordinary shares to be represented by American depositary shares (“**ADSs**”).

The Company has included in the Registration Statement its audited consolidated financial statements as of December 31, 2016 and 2017 and for each of the two years ended December 31, 2016 and 2017, and unaudited interim consolidated financial statements as of September 30, 2018 and for each of the nine-month periods ended September 30, 2017 and 2018.

Item 8.A.4 of Form 20-F states that in the case of a company’s initial public offering, the registration statement on Form F-1 must contain audited financial statements of a date not older than 12 months from the date of the offering unless a representation is made pursuant to Instruction 2 to Item 8.A.2. The Company is making this representation pursuant to Instruction 2 to Item 8.A.4, as amended and effective on November 5, 2018, which provides that a company may instead comply with the 15-month requirement “if the company is able to represent that it is not required to comply with the 12-month requirement in any other jurisdiction outside the United States and that complying with the 12-month requirement is impracticable or involves undue hardship.”

The Company hereby represents that:

1. The Company is not required by any jurisdiction outside the United States to prepare, and has not prepared, consolidated financial statements audited under any generally accepted auditing standards for any interim period.
2. Compliance with Item 8.A.4 at present is impracticable and involves undue hardship for the Company.
3. The Company does not anticipate that its audited financial statements for the year ended December 31, 2018 will be available until late March 2019.

---

4. In no event will the Company seek effectiveness of its Registration Statement on Form F-1 if its audited financial statements are older than 15 months at the time of the offering.

The Company is filing this representation as an exhibit to the Registration Statement on Form F-1 pursuant to Instruction 2 to Item 8.A.4.

**Futu Holdings Limited**

/s/ Leaf Hua Li

---

By: Leaf Hua Li

Title: Chief Executive Officer