



Futu Holdings Limited

富途控股有限公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

Stock Code : 3588



LISTING BY WAY OF INTRODUCTION

Joint Sponsors



高盛



UBS 瑞銀集團

Sole Financial Advisor



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IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this document, you should seek independent professional advice.



Futu Holdings Limited 富途控股有限公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

LISTING BY WAY OF INTRODUCTION ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock Code: 3588

Joint Sponsors



Sole Financial Advisor



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This document is published in connection with the listing by way of introduction on the Main Board of The Stock Exchange of Hong Kong Limited of the Class A ordinary shares of Futu Holdings Limited. This document contains particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) for the purpose of giving information with regard to our Company, subsidiaries and consolidated affiliated entities.

This document does not constitute an offer of, nor is it calculated to invite offers for, Class A ordinary shares or other securities of our Company, nor has any such Class A ordinary shares or other securities been allotted with a view to any of them being offered for sale to or subscription by members of the public. No new Shares will be allotted and issued in connection with, or pursuant to, this document.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk Factors" in this document. Information regarding the proposed arrangements for the listing of, and dealings and settlement of dealings in, our Class A ordinary shares following the Introduction is set out in "Market Arrangements to Facilitate Dealings in Hong Kong" in this document.

The Company is controlled through weighted voting rights. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure, in particular that the WVR Beneficiary, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders' resolution. For further information about the risks associated with our WVR structure, please refer to the section headed "Risk Factors — Risks Related to our Class A Ordinary Shares and ADSs." Prospective investors should make the decision to invest in the Company only after due and careful consideration.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

December 22, 2022

EXPECTED TIMETABLE⁽¹⁾

The Company will publish an announcement on the website of the Stock Exchange at www.hkexnews.hk and our website at ir.futuholdings.com if there is any change in the following expected timetable of the Introduction.

Commencement of investor education activities as described in “Market Arrangements to Facilitate Dealings in Hong Kong — Investor Education” from Thursday, December 22, 2022

- dissemination of electronic copies of this listing document through the respective websites of our Company at ir.futuholdings.com and the Hong Kong Stock Exchange at www.hkexnews.hk

Daily announcement released on the respective websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at ir.futuholdings.com, disclosing the previous day closing price (in both US dollars and Hong Kong dollars for reference) of ADSs (each representing eight Class A Ordinary Shares) on the Nasdaq Global Market, and developments and updates, if any, with regard to bridging arrangements described in “Market Arrangements to Facilitate Dealings in Hong Kong” on Friday, December 23, 2022
Wednesday, December 28, 2022
Thursday, December 29, 2022
and no later than 8:30 a.m. on
Friday, December 30, 2022

Dealings in the Class A Ordinary Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on Friday, December 30, 2022

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) Particulars of the Introduction are set out in “Information About this Document and the Introduction.”

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IMPORTANT NOTICE TO INVESTORS

We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not contained nor made in this document must not be relied on by you as having been authorised by the Company, the Joint Sponsors, any of their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Introduction. Information contained in our website located at ir.futuholdings.com does not form part of this document.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Moreover, there are risks associated with any investment. Some of the particular risks of investing in our Shares are set out in “Risk factors”. You should read the entire document carefully before you decide to invest in our Shares.

OVERVIEW

We are a leading one-stop financial technology platform transforming the investing experience with our fully digitalized securities brokerage and wealth management product distribution services in Hong Kong. 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. Technology permeates every part of our business, allowing us to offer a redefined user experience built upon a secure, stable, agile and scalable online platform. Today, we have become a market leader in Hong Kong in the retail securities brokerage industry and a go-to brand for retail securities trading. According to CIC, we are the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange, with a market share of 10.7% as of December 31, 2021.

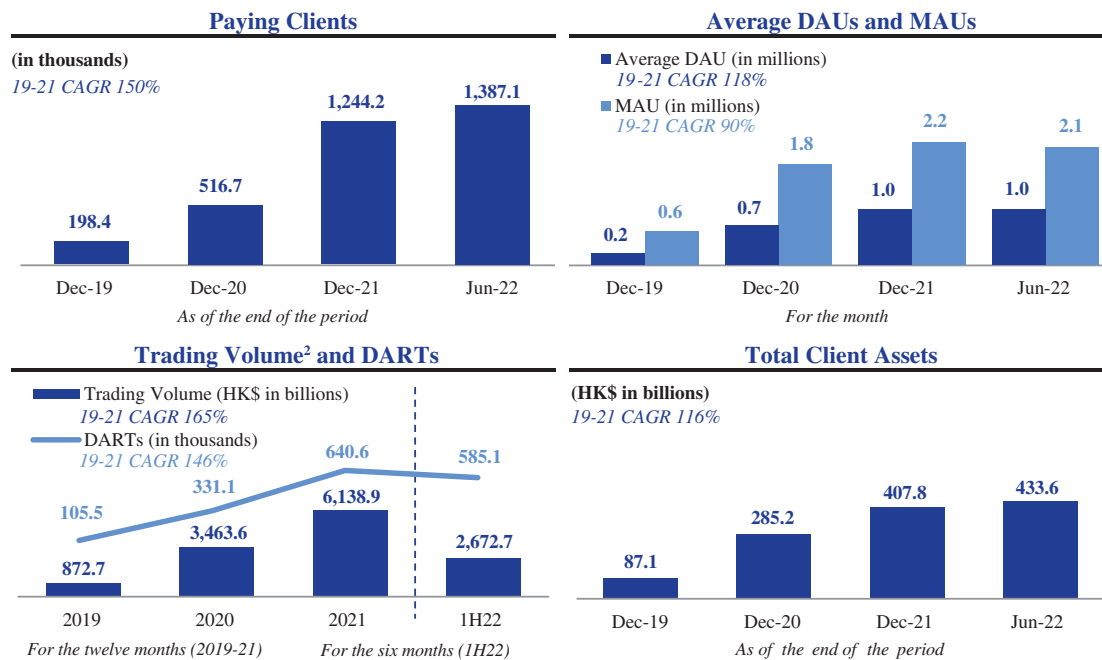
A securities brokerage service provider at inception, we are now an all-rounded online financial services platform, seamlessly integrating services and products including trading, wealth management product distribution, market data and information, user community, investor education, and corporate services with a focus on the online securities brokerage market. As an intuitive and easy-to-navigate platform, we are serving approximately 19.2 million users. We primarily attract the emerging affluent and tech-savvy generation of investors, evidenced by the average paying client age of 37 and average paying client assets of over HK\$310,000 on our platform as of June 30, 2022. We provide a comprehensive range of investment products, including equities and derivatives across major global exchanges, margin financing and securities lending, as well as fund and bond investments. Our vibrant user community further engages our users and provides them with direct access to listed companies, fund houses, exchanges, media and research institutions that have accounts in our user community through communication with their representatives.

We have developed a proprietary and highly automated technology infrastructure encompassing every aspect of our business operations, from account opening, fund transfer, trading and investment, to risk management. Our technology infrastructure provides us with crucial advantages:

- ***Integrated cross-market platform.*** We have developed an easy-to-use and highly integrated cross-market system which allows our clients to view and execute trades in different markets as a unified market from one single platform, with streamlined functionality extending from core trading, real-time risk management to multi-currency, multi-market settlement.
- ***Security and stability.*** Our platform features an automated multi-level protection mechanism and strict security measures such as data encryption and two-factor authentication, to protect our clients’ personal information and trading data.
- ***Agility and scalability.*** Our platform is built on a cloud-based distributed infrastructure and highly modularized architecture, each component of which can be separately upgraded and replaced, significantly reducing the launch cycle, accelerating response time, and enhancing scalability.
- ***Big data and AI capabilities.*** We have established an intelligent risk control platform built on our proprietary algorithms, which is capable of analyzing different types, sources and stages of risks and providing margin ratio adjustment recommendations and early risk warnings. We have also developed AI-based customer service function leveraging our big data analytic and natural language processing capabilities.

SUMMARY

As a result of our relentless focus on technology development and product innovation, we have achieved significant growth since inception, and especially during the Track Record Period¹:



Notes:

- For each relevant period prior to January 1, 2021, figures are only inclusive of those under Futubull or Futu International Hong Kong, as applicable. For each subsequent period since January 1, 2021, figures are also inclusive of those under moomoo or Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia, as applicable.
- The trading volume presented is the aggregate volume of trading through our platform in securities listed on multiple stock exchanges globally.

KEY OPERATING DATA

The table below sets forth the growth of our platform in terms of users, clients and client assets during the Track Record Period¹:

	As of/For the month ended December 31,			As of/For the month ended June 30,
	2019	2020	2021	2022
Users	7,513,887	11,916,648	17,374,296	18,649,821
MAUs	615,199	1,831,807	2,219,274	2,060,040
Average DAUs	208,340	679,565	985,630	983,167
Clients	717,842	1,419,734	2,751,239	3,021,790
Paying clients	198,382	516,721	1,244,222	1,387,146
Total client asset balance (HK\$ billion)	87.1	285.2	407.8	433.6
Average paying client asset balance (HK\$)	439,182	551,923	327,758	312,579

Note:

- For each relevant year/period prior to January 1, 2021, figures are only inclusive of those under Futubull or Futu International Hong Kong, as applicable. For each subsequent period since January 1, 2021, figures are also inclusive of those under moomoo or Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia, as applicable.

SUMMARY

Together with the growth of our trading platform, the client asset balance on our platform also increased for the markets that we serve. Set forth below is a breakdown by stock exchange of the total client asset balance on our platform during the Track Record Period:

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	(HK\$ in millions)			
Hong Kong Stock Exchange ¹ . . .	41,887	134,381	204,591	228,521
Major stock exchanges in the U.S.	23,790	93,829	124,630	113,557
Singapore Exchange	–	–	1,360	1,977
Australian Securities Exchange	–	–	–	23
Others ²	21,449	56,980	77,223	89,515

Notes:

- 1 Includes qualified northbound securities under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.
- 2 Includes cash, balance of wealth management products and net balance of futures products.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success:

- **Market leading brand.** We are a market leader in Hong Kong and a go-to brand for retail securities trading, and have achieved consistently high growth.
- **Premier investing experience.** We make investing easier by crafting a premier user experience through technology capabilities, redefining industry best practices.
- **High-quality customer base.** Our platform has attracted a vast base of high-quality customers who are young, active, loyal and with potential to generate wealth.
- **Flywheel effects of corporate and retail services.** The high quality of our services offered to enterprises and individuals resulted in flywheel effects and enabled us to achieve efficient and effective customer acquisition.
- **Vibrant user community.** We make investing not alone through *NiuNiu/Moo Community*, a vibrant online community with social media tools for our users to interact, share, learn and grow.

GROWTH STRATEGIES

Our vision is to become an influential global financial services platform, which we will continue to pursue through the following key strategies:

- **Grow our user and client base.** We strive to continuously grow our user and client base by word-of-mouth referral and precision marketing.
- **Enhance our ecosystem.** We will further enhance our synergistic ecosystem, through constantly broadening our product portfolio, adding new features and enriching the content in our *NiuNiu/Moo Community* as well as investing in our enterprise business.
- **Invest in our platform.** We will continue to invest in technology and talents, to maintain our competitive advantages and to facilitate the execution of our strategies.
- **Expand in various markets.** We aim to expand our presence and improve our product offering capabilities in various markets, to capture global opportunities and nurture a global client base.

SUMMARY

MARKET OPPORTUNITY

- *Increasing retail investor participation and online penetration*
- *Growing demand for diversified investment products*
- *Social community driving user engagement*

OUR PLATFORM AND SERVICES

We operate a leading technology-driven online securities brokerage and wealth management product distribution platform, which enables us to digitally provide a wide range of products and services to our users and clients from a single profile. We ensure an omni-terminal access to our platform from mobile phones, tablets and computers, either through our purpose-built applications or internet browsers.

Futubull is our primary platform, which is mainly available to users based in Hong Kong and Mainland China. We also launched *moomoo* in the U.S., Singapore and Australia as part of our international expansion. Our users and clients can access to all of our products and services seamlessly from a single profile on our platform, including: (i) trade execution for securities across major exchanges in Hong Kong, Singapore, the U.S. and Australia; (ii) margin financing and securities lending; (iii) wealth management product distribution including fund and bond investments; (iv) market data and information; and (v) user community. We also offer corporate services to enterprises, including: (i) IPO distribution; (ii) investor relations and marketing; (iii) ESOP solution services and (iv) trust services.

COMPETITIVE LANDSCAPE

The markets for online securities brokerage and wealth management product distribution services are emerging and rapidly evolving. We primarily compete with other online securities brokers and traditional brokers. Traditional brokers include brokers with offline channels, and brokerage business units within commercial banks. Compared to traditional brokers, online securities brokers are able to deliver more accessible and more stable digitalized services and comprehensive products supported by their technology capabilities and robust infrastructure. Online securities brokers establish large and vibrant user base through their comprehensive marketing tools and therefore gain great business potential for international expansion. Compared to online brokers, traditional brokers have competitive strengths in providing advanced products and services with a focus on institutional investors on the back of wide offline client reach and long operating history. See “Industry Overview” for more details of the competitive landscape of the industry in which we operate.

After ten years of rapid growth, we are now a market leader in Hong Kong in the retail securities brokerage industry. According to CIC, as of December 31, 2021:

- We are the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange;
- *Futubull* repeatedly ranked the first in the finance category of Hong Kong iOS and Android App Stores, and *moomoo* ranked the first in the finance category and free download category of Singapore’s iOS and Android App Store within only two months after launch.

SUMMARY

RISK FACTORS

Our operations and the Listing involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See the section headed “Risk Factors” for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

- We are subject to extensive and evolving regulatory requirements in the markets we operate in, 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 investigation by relevant regulators;
- Our online client onboarding procedures historically did not strictly follow the specified steps set out by the relevant authorities in Hong Kong, which may subject us to regulatory actions in addition to remediation, which may include, reprimands, fines, limitations or prohibitions on our future business activities and/or suspension or revocation of Futu International Hong Kong’s licenses and trading rights, and consequently may adversely affect our business, financial condition, operations, brand reputation and prospects;
- We do not hold any license or permit for providing securities brokerage business in Mainland China. Although we do not believe we engage in securities brokerage business in Mainland China, there remain uncertainties as to the interpretation and implementation of relevant PRC laws and regulations or if any new PRC laws and regulations will be enacted to impose licensing requirements on us with respect to our activities in Mainland China and/or our provision of services to our PRC-based clients. If some of our activities in Mainland China were deemed by relevant regulators as provision of securities business such as securities brokerage services, investment consulting services, futures business and/or any other regulated services and business activities in Mainland China, our business, financial condition, results of operations and prospects may be materially and adversely affected;
- Our operations and services involve collection, processing, and storage of significant amounts of data concerning our clients, business partners and employees and may be subject to complex and evolving laws and regulations regarding privacy and data protection and cybersecurity. If we fail to comply with the relevant laws and regulations, our business, results of operations and financial condition may be adversely affected;
- We depend on contractual arrangements with our VIEs and their shareholders to operate a part of our business in China and to hold the necessary licenses for our operations, which may not be as effective as direct ownership in providing operational control and otherwise may have a material adverse effect as to our business; and
- The ADSs could be delisted from the Nasdaq Global Market and prohibited from trading “over the counter” if the Public Company Accounting Oversight Board is unable to inspect auditors located in China. The delisting of the ADSs from the Nasdaq Global Market and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment.

THE HFCAA

On April 21, 2022, the SEC conclusively listed Futu Holdings Limited as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. In accordance with the HFCAA, our securities will be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if the PCAOB is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China for three consecutive years, or for two consecutive years if proposed changes to the law are enacted. As a result, the Nasdaq may decide to delist our securities. On August 26, 2022, the PCAOB signed a Statement of

SUMMARY

Protocol with the China Securities Regulatory Commission and the Ministry of Finance of China, the Chinese authorities governing inspections and investigations of audit firms based in China, which marks taking the first step toward providing opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong in 2022. The PCAOB vacated its previous 2021 determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. For this reason, we do not expect to be identified as a Commission-Identified Issuer following the filing of our annual report for the fiscal year ending December 31, 2022. However, whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainty and depends on a number of factors out of our, and our auditor's, control. The PCAOB is continuing to demand complete access in mainland China and Hong Kong moving forward and is already making plans to resume regular inspections in early 2023 and beyond, as well as to continue pursuing ongoing investigations and initiate new investigations as needed. If our shares and the ADSs are prohibited from trading in the United States in the future, such a prohibition would substantially impair the ability of our investors to sell or purchase the ADSs when they wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our Class A Ordinary Shares or the ADSs. For more details, see "Risk Factors — Risks Related to Our Presence in China — The ADSs could be delisted from the Nasdaq Global Market and prohibited from trading "over the counter" if the Public Company Accounting Oversight Board is unable to inspect auditors located in China. The delisting of the ADSs from the Nasdaq Global Market and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment." Our Directors are of the view that the HFCAA and the potential prohibition of trading in the United States do not have any material adverse impact on our business operations, financial performance, or the Listing, as our securities will continue to be traded on the Hong Kong Stock Exchange even if the prohibition of trading were to take place.

WEIGHTED VOTING RIGHTS AND OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, our Company adopted a weighted voting rights structure, under which our share capital comprises Class A Ordinary Shares (which entitles the holders to exercise one vote) and Class B Ordinary Shares (which entitles the holders to exercise 20 votes). On November 21, 2022, pursuant to our existing Articles of Association, Mr. Li, being the WVR Beneficiary, has delivered an irrevocable written consent to the Company, among other things, to consent to the modification of voting rights attached to each Class B Ordinary Share from 20 votes to ten votes pursuant to Rule 8A.10 of the Listing Rules, effective upon the Listing. Accordingly, each Class B Ordinary Share shall entitle its holder to exercise ten votes, on all matters that require a Shareholder's vote, subject to Rule 8A.24 of the Listing Rules that requires a limited number of Reserved Matters to be voted on a one vote per share basis (save for the specified exception for the compliance of Rule 8A.24 of the Listing Rules). Our Company will put forth resolutions to amend the Articles of Association at the next general meeting following the Listing (the "**First GM**"), which we have undertaken to convene on or before June 30, 2023. For further details, please see "Waivers — Requirements relating to the Articles of Association of the Company."

Immediately upon completion of the Introduction, the WVR Beneficiary will be Mr. Li, our founder, chairman of the Board, executive Director and chief executive officer. Assuming (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date; and (ii) all Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited are converted to Class A Ordinary Shares upon the completion of the Introduction, Mr. Li will beneficially own and will control, through entities affiliated with him (i.e. Lera Ultimate Limited and Lera Infinity Limited), an aggregate of 239,750,000 Class B Ordinary Shares, representing (a) approximately 21.52% of our issued and outstanding Shares; (b) approximately 73.28% of the effective voting rights in our Company with respect to shareholder resolutions relating to matters other than the Reserved Matters; and (c) approximately 21.52% with respect to shareholder resolutions relating to the Reserved Matters upon completion of the Introduction.

SUMMARY

Mr. Li holds his interests in our Company through Lera Ultimate Limited and Lera Infinity Limited, which are ultimately owned by Lera Direction Plus Trust and Lera Target Trust, respectively. Each of Lera Direction Plus Trust and Lera Target Trust is a trust established by Mr. Li (as the settlor) for the benefit of his family and himself. Therefore, Mr. Li, Lera Ultimate Limited and Lera Infinity Limited together will constitute the Controlling Shareholders of our Company after the Listing. Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders.”

The Company’s WVR structure enables the WVR Beneficiary to exercise voting control over the Company notwithstanding that the WVR Beneficiary does not hold a majority of economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR Beneficiary who will control the Company with a view to its long-term prospects and strategy.

Mr. Li is the founder, chairman of the Board, executive Director and chief executive officer of our Company. He has been the forefront of our Group’s growth and innovation since its inception, providing the core vision and philosophy and participating in all of the key management decisions that has led to the continued success and development of our Group. In particular, Mr. Li has led the technology committee of our Company to formulate technology development strategies, optimize the existing technology infrastructure and implement large-scale technology projects of our Group. For Mr. Li’s biographical details, please refer to “Directors and Senior Management” of this document.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR Beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of Shareholders’ resolutions. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure, see “Risk Factors — Risks related to our Class A Ordinary Shares and ADSs.”

As we are seeking a dual primary listing as an issuer with a WVR structure, we are subject to: (a) certain shareholder protection measures and governance safeguards under Chapter 8A of the Listing Rules, including Rule 8A.44 of the Listing Rules, which requires our WVR Structure to give force to the requirements of certain rules under Chapter 8A of the Listing Rules by incorporating them into our Articles; and (b) the articles requirements set out in Appendix 3 to the Listing Rules. Our Articles do not currently comply with some of the Listing Rules Articles Requirements (the “**Unmet Listing Rules Articles Requirements**”), and we undertake to put forth resolutions to amend our Articles to comply with these requirements at the First GM.

Furthermore, we undertake to, at the First GM, seek shareholders’ approval to amend our Articles to incorporate the Termination of Tencent’s Special Rights, the Quorum Requirement, the GM Postponement Requirement, the Amendment of Directors’ Class Right Related Powers and the Forum Selection Clarification into the Articles. Details of these proposed amendments are set out in the section headed “Waivers — Requirements relating to the Articles of Association of the Company.”

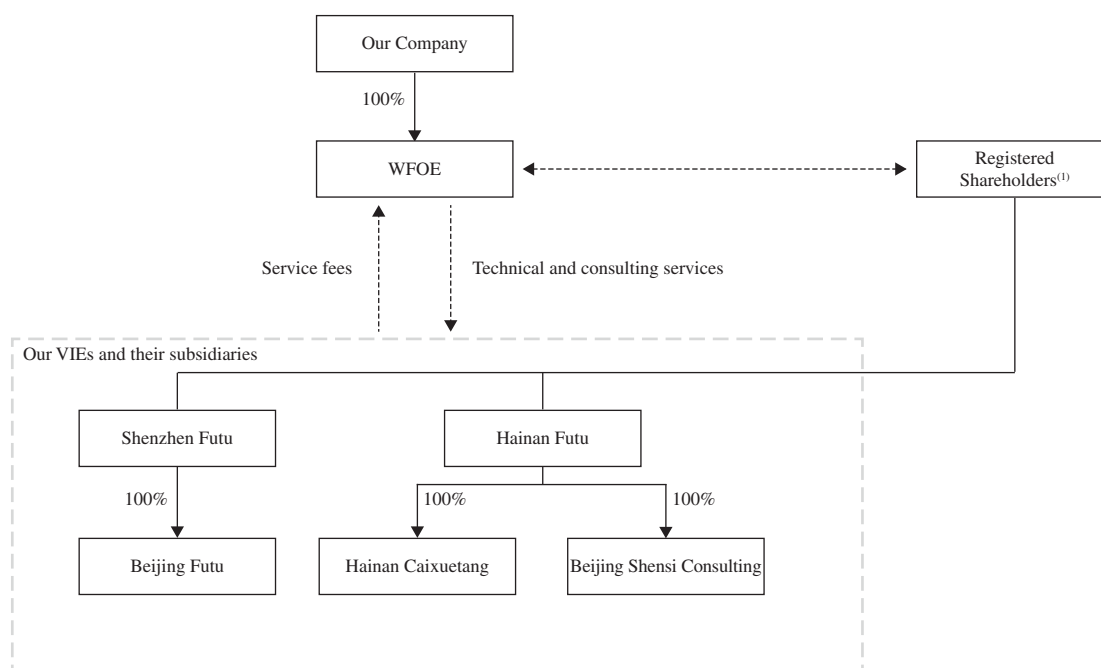
In addition, save for certain specified exceptions, we undertake to fully comply with the Unmet Listing Rules Articles Requirements, the Termination of Tencent’s Special Rights, the Quorum Requirement, the GM Postponement Requirement, the Amendment of Directors’ Class Right Related Powers and the Forum Selection Clarification before our Articles are formally amended such that immediately upon the Listing, we will be subject to, and will fully comply with, such requirements as if they have already been incorporated into our existing Articles upon the Listing. For further details, please see “Waivers — Requirements relating to the Articles of Association of the Company” and “Share Capital — Weighted Voting Rights Structure.”

SUMMARY

CONTRACTUAL ARRANGEMENTS

Our Consolidated Affiliated Entities are currently our VIEs and their respective subsidiaries, which were all established under the PRC laws. Foreign investment in certain areas of the industries in which Shenzhen Futu and Hainan Caixuetang currently operate are subject to restrictions under the PRC laws and regulations. After consultation with our PRC Legal Advisors, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by, our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand. For further details, please see the section headed “Contractual Arrangements” in this document.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to WFOE and our Company under the Contractual Arrangements:



Notes:

- (1) Each of Shenzhen Futu and Hainan Futu is held as to 85% by Mr. Li and as to 15% by Ms. Lei Li (Mr. Li's spouse).
- (2) “——>” denotes direct legal and beneficial ownership in equity interest.
- (3) “- - - - ->” denotes contractual relationship.
- (4) “- - - - -” denotes the control by the WFOE over our Consolidated Affiliated Entities through (i) the powers of attorney to exercise all shareholders' rights of the Registered Shareholders in our VIEs; (ii) exclusive options to acquire all or part of the equity interest in our VIEs; and (iii) equity pledges by the Registered Shareholders in favour of the WFOE over the equity interests in our VIEs.
- (5) As of the Latest Practicable Date, Shenzhen Futu held a Valued-added Telecommunication Business Operation License (《增值電信業務經營許可證》, the “ICP License”), a Radio and Television Program Production and Operation License and an Internet Culture Operation License; and Hainan Caixuetang held an Internet Culture Operation License, a Radio and Television Program Production and Operation License, an ICP License and a Publication Operation License.
- (6) Beijing Futu, Hainan Futu and Beijing Shensi Consulting have not yet commenced substantive business operations and are not expected to have commenced any substantive business operations by the time of the Listing, and will only carry out businesses which are subject to foreign investment restrictions under the applicable PRC laws and regulations in the future.

SUMMARY

lending, resulting in higher interest income derived therefrom. Given interest income from margin financing accounts for the majority of our total interest income, the fluctuations of interest income during the Track Record Period were mainly attributable to the scale of our margin financing business and overall number of IPO transactions during the relevant period. Our gross profit margin increased from 73.4% in 2019 to 87.1% for the six months ended June 30, 2022, primarily attributable to higher operating leverage as a result of our larger business scale and improved operating efficiency.

Our operating expenses increased by 93.8% from HK\$591.9 million in 2019 to HK\$1,147.0 million in 2020, and further by 137.7% to HK\$2,726.4 million in 2021. Our operating expenses for the six months ended June 30, 2022 amounted to HK\$1,469.9 million (US\$187.3 million), which increased by 29.3% from HK\$1,137.2 million for the same period in 2021. The increase was primarily due to the increase in research and development expenses and general and administrative expenses as a result of our continued business growth.

The rapid increase in net income from HK\$165.7 million in 2019 to HK\$1,325.5 million in 2020 and further to HK\$2,810.2 million in 2021 were generally in line with the expansion of our business and the trading activity of our paying clients during the same period. The subsequent decrease in net income from HK\$1,696.2 million in the six months ended June 30, 2021 to HK\$1,213.5 million (US\$154.6 million) in the same period in 2022 was generally in line with the increase in operating expenses during the relevant period.

Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, approximately 68%, 31% and 1% of our individual paying clients as of December 31, 2019, 55%, 44% and 1% of our individual paying clients as of December 31, 2020, 38%, 39% and 23% of our individual paying clients as of December 31, 2021 and 35%, 39% and 26% of our individual paying clients as of June 30, 2022 were related to Mainland China, Hong Kong and other markets, respectively. Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, regardless of their residency, and the location where services were originated or conducted for corporate counterparties, our revenue related to Mainland China, Hong Kong and other markets accounted for approximately 69%, 30% and 1% of our total revenue in 2019, 60%, 39% and 1% of our total revenue in 2020, 52%, 46% and 2% of our total revenue in 2021, and 44%, 48% and 8% of our total revenue for the six months ended June 30, 2022, respectively. The decrease in the proportion of our revenue related to Mainland China during the Track Record Period was mainly due to our Group's global expansion strategies and our growing and high proportion of newly added overseas clients. The revenue breakdown is not derived from our management accounts and is solely based on the relevant business data and our management estimate. Our Group does not distinguish between markets or segments for the purpose of internal reporting and has only one reportable segment in its consolidated financial statements.

During the Track Record Period, we generated 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 indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,					
	2019		2020		2021		2021		2022			
	Amount	% of	Amount	% of	Amount	% of	Amount	% of	Amount	Amount	% of	
	revenue	total	revenue	total	revenue	total	revenue	total	revenue	revenue	total	
	HK\$		HK\$		HK\$		HK\$		HK\$	US\$		
	<i>(in thousands except for percentages)</i>											
	<i>(unaudited)</i>											
Brokerage commission and handling charge income	511,365	48.2	1,990,138	60.1	3,913,027	55.0	2,122,679	56.1	2,001,246	255,027	59.1	
Interest income	464,903	43.8	965,627	29.2	2,518,198	35.4	1,268,940	33.6	1,195,661	152,368	35.3	
Other income	85,287	8.0	355,057	10.7	684,095	9.6	389,842	10.3	190,821	24,317	5.6	
Total	1,061,555	100.0	3,310,822	100.0	7,115,320	100.0	3,781,461	100.0	3,387,728	431,712	100.0	

SUMMARY

The following table sets forth the components of our brokerage commission and handling charge income by type of products traded during the Track Record Period:

	For the Year ended December 31,			For the Six Months ended June 30,		US\$
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	
	<i>(in thousands)</i>			<i>(unaudited)</i>		
Securities and options						
brokerage	480,677	1,878,038	3,688,149	2,024,838	1,810,496	230,719
Futures brokerage	37	32,530	130,775	53,857	154,060	19,632
IPO brokerage	27,981	70,846	75,571	38,384	10,316	1,315
Others ⁽¹⁾	2,670	8,724	18,532	5,600	26,374	3,361
Total	511,365	1,990,138	3,913,027	2,122,679	2,001,246	255,027

Note:

- (1) Others include (i) handling fees, such as dividend collection fees, equity interest collection fees, corporate action handling fees, (ii) bond brokerage commission and (iii) service fees, such as ESOP handling charges.

The revenue generated from our securities and options brokerage increased from HK\$480.7 million in 2019, to HK\$1,878.0 million in 2020 and further to HK\$3,688.1 million in 2021, primarily due to the increase in our securities and options trading volume which was driven by the growth of our paying client base and their increased trading activities. However, the revenue generated from our securities and options brokerage decreased from HK\$2,024.8 million for the first six months ended June 30, 2021 to HK\$1,810.5 million (US\$230.7 million) for the first six months ended June 30, 2022, primarily because the securities and options trading volume declined compared to the same period in 2021 when market peaked.

The revenue generated from our futures brokerage increased from HK\$37 thousand in 2019, to HK\$32.5 million in 2020, and further to HK\$130.8 million in 2021, and from HK\$53.9 million for the six months ended June 30, 2021 to HK\$154.1 million (US\$19.6 million) for the six months ended June 30, 2022. The overall increase in revenue generated from our futures brokerage throughout the Track Record Period was generally in line with the expansion of our futures trading services and the increasing needs of investors for hedging instruments when the market was highly volatile.

The revenue generated from our IPO brokerage increased from HK\$28.0 million in 2019, to HK\$70.8 million in 2020 and further to HK\$75.6 million in 2021, primarily due to the expansion of our IPO subscription services. However, the revenue generated from our IPO brokerage decreased from HK\$38.4 million for the first six months ended June 30, 2021 to HK\$10.3 million (US\$1.3 million) for the first six months ended June 30, 2022, primarily due to the decrease in the overall number of IPO transactions in the U.S. and Hong Kong markets in the six months ended June 30, 2022.

The revenue from our other products and services increased from HK\$2.7 million in 2019, to HK\$8.7 million in 2020, and further to HK\$18.5 million in 2021, and from HK\$5.6 million for the six months ended June 30, 2021 to HK\$26.4 million (US\$3.4 million) for the six months ended June 30, 2022. The increase in revenue from our other products and services was due to an increase in income from ESOP handling charges, generally in line with the expansion of our ESOP solution services during the Track Record Period.

SUMMARY

Selected items from the Consolidated Balance Sheets

The following table sets forth our selected balance sheets as of the dates indicated:

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>				
Total current assets	21,072,369	70,842,465	100,702,456	108,236,029	13,792,949
Total non-current assets	327,555	495,302	836,058	1,522,251	193,987
Total assets	21,399,924	71,337,767	101,538,514	109,758,280	13,986,936
Total current liabilities	18,716,232	62,860,164	80,378,301	90,065,742	11,477,437
Total non-current liabilities	135,139	169,913	174,654	139,718	17,805
Total liabilities	18,851,371	63,030,077	80,552,955	90,205,460	11,495,242
Net current assets	2,356,137	7,982,301	20,324,155	18,170,287	2,315,512
Net assets	2,548,553	8,307,690	20,985,559	19,552,820	2,491,694

Our total current assets increased throughout the Track Record Period, primarily attributable to (i) the general increase in cash held on behalf of clients due to our continued business expansion and (ii) the increase in loans and advances as a result of an increase in margin loans, IPO loans extended to clients and other advances, collateralized by securities and carried at the amortized cost, net of an allowance for credit losses.

Our net current assets generally increased throughout the Track Record Period. In particular, our net current assets increased significantly from HK\$2,356.1 million as of December 31, 2019 to HK\$7,982.3 million as of December 31, 2020, and further to HK\$20,324.2 million as of December 31, 2021, primarily due to (i) the increase in cash held on behalf of clients, and (ii) the increase in loans and advances. Our net current assets subsequently decreased from HK\$20,324.2 million as of December 31, 2021 to HK\$18,170.3 million (US\$2,315.5 million) as of June 30, 2022, primarily due to the increase in our payables to our clients and brokers.

We recorded net assets of HK\$2,548.6 million, HK\$8,307.7 million, HK\$20,985.6 million and HK\$19,552.8 million (US\$2,491.7 million) as of December 31, 2019, 2020 and 2021, and June 30, 2022. Our net assets increased from HK\$2,548.6 million as of December 31, 2019 to HK\$8,307.7 million as of December 31, 2020, primarily due to (i) our net profit of HK\$1,325.5 million recognized in 2020, (ii) issuance of ordinary shares upon follow-on public offering of HK\$2,339.7 million, and (iii) issuance of pre-funded warrants of HK\$2,035.1 million. Our net assets increased from HK\$8,307.7 million as of December 31, 2020 to HK\$20,985.6 million as of December 31, 2021, primarily due to (i) our net profit of HK\$2,810.2 million recognized in 2021, and (ii) issuance of ordinary shares of HK\$10,856.5 million, partially offset by treasury stock purchases of HK\$1,178.8 million. Our net assets decreased from HK\$20,985.6 million as of December 31, 2021 to HK\$19,552.8 million (US\$2,491.7 million) as of June 30, 2022, primarily due to treasury share purchases of HK\$2,731.0 million, partially offset by our net profit of HK\$1,213.5 million recognized in six months ended June 30, 2022.

SUMMARY

Selected items from the Consolidated Statements of Cash Flows

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

	For the Year ended December 31,			For the Six Months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>			<i>(unaudited)</i>		
Net cash generated from/ (used in) operating activities	1,969,434	20,456,717	6,011,971	(14,351,728)	14,118,089	1,799,124
Net cash (used in)/generated from investing activities	(160,057)	(244,175)	(963,565)	271,378	786,121	100,179
Net cash generated from/(used in) financing activities	1,151,622	8,406,896	10,554,218	34,721,267	(4,720,133)	(601,505)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(44,666)	(1,117)	167,130	30,620	89,218	11,369
Net increase in cash, cash equivalents and restricted cash	2,916,333	28,618,321	15,769,754	20,671,537	10,273,295	1,309,167
Cash, cash equivalents and restricted cash at beginning of the year/period	11,987,104	14,903,437	43,521,758	43,521,758	59,291,512	7,555,754
Cash, cash equivalents and restricted cash at end of the year/period	14,903,437	43,521,758	59,291,512	64,193,295	69,564,807	8,864,921

We had positive cash flow from operating activities of approximately HK\$14.1 billion (US\$1.8 billion) for the six months ended June 30, 2022, which was mainly attributable to the changes in the working capital. The changes were caused by increase in accounts payables to clients and brokers and decrease in loans and advances throughout the Track Record Period. 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 decrease of loans and advances was due to a decrease in trading activities of our clients. During the Track Record Period, we mainly relied on net proceeds from our securities offerings, cash generated from operating activities and loans provided by commercial banks, other licensed financial institutions and other parties for our cash resources.

We had negative cash flow from operating activities of approximately HK\$14.4 billion for the six months ended June 30, 2021, which was mainly attributable to the net increase in loans and advances of HK\$34.4 billion and net increase in accounts receivables from clients and brokers of HK\$4.3 billion for the period. The increase of loans and advances was primarily due to several ongoing IPO cases of sizeable scale that are mainly financed by our borrowings from banks as of June 30 2021, which were subsequently settled several days later and before the completion of such IPOs.

SUMMARY

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

The consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. The main reconciling items include classification and measurement of preferred shares, issuance costs, operating leases, share-based compensation and expected credit loss. The following tables set forth the effects of material differences prepared under U.S. GAAP and IFRS:

	For the Year ended December 31,			For the Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>				
	<i>(unaudited)</i>				
Reconciliation of net income attributable to our Company in the consolidated statements of comprehensive income					
Net income attributable to our Company in the consolidated statements of comprehensive income as reported under U.S. GAAP	165,664	1,325,523	2,810,210	1,696,190	1,213,525
IFRS adjustments:					
Classification and measurement of preferred shares	(216,140)	-	-	-	-
Issuance costs	(26,971)	-	(14,336)	-	(4,731)
Operating leases	(3,204)	(1,913)	(2,238)	(1,741)	(132)
Share-based compensation	(10,681)	(19,294)	(76,461)	(19,489)	(74,697)
Expected credit loss	1,533	(7,475)	(2,520)	(2,636)	(2,651)
Net (loss)/income attributable to our Company in the consolidated statements of comprehensive income as reported under IFRS	<u>(89,799)</u>	<u>1,296,841</u>	<u>2,714,655</u>	<u>1,672,324</u>	<u>1,131,314</u>

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			

Reconciliation of total shareholders' equity in the consolidated balance sheets				
Total shareholders' equity as reported under U.S. GAAP	2,548,553	8,307,690	20,985,559	19,552,820
IFRS adjustments:				
Issuance costs	-	-	(14,336)	(19,067)
Operating leases	(4,303)	(6,001)	(8,454)	(8,151)
Expected credit loss	(2,330)	(9,805)	(12,342)	(14,958)
Total shareholders' equity as reported under IFRS	<u>2,541,920</u>	<u>8,291,884</u>	<u>20,950,427</u>	<u>19,510,644</u>

SUMMARY

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates indicated, or for the periods indicated:

	For the Year ended/as of December 31,			For the Six Months ended/as of June 30,	
	2019	2020	2021	2021	2022
Gross profit margin ⁽¹⁾ . . .	73.4%	79.0%	83.1%	80.9%	87.1%
Net income margin ⁽²⁾ . . .	15.5%	40.0%	39.5%	44.9%	35.8%
Return on equity ⁽³⁾	N.A. ⁽⁵⁾	24.4%	19.2%	N.A. ⁽⁵⁾	12.0% ⁽⁶⁾
Return on total assets ⁽⁴⁾	N.A. ⁽⁵⁾	2.9%	3.3%	N.A. ⁽⁵⁾	2.3% ⁽⁶⁾

Notes:

- (1) Equals gross profit divided by revenues for the period.
- (2) Equals net profit divided by revenues for the period.
- (3) Equals net profit divided by the average of beginning and ending total shareholders' equity for the period.
- (4) Equals net profit divided by the average of beginning and ending total asset for the period.
- (5) Our audited financial information for the year ended December 31, 2018 and our unaudited consolidated balance sheet as of June 30, 2021 are not included in this document.
- (6) Return on assets and return on equity for the six months ended June 30, 2022 were calculated by dividing the net profit for the period with average total shareholders' equity and average total assets multiplied by 2 in order to arrive at proforma annualized ratios.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The ADSs each of which represents eight of our Class A Ordinary Shares, were listed on the Nasdaq Global Market under the symbol "FHL" in March 2019 and currently traded under the symbol of "FUTU." We have applied to the Listing Committee of the Stock Exchange for a dual primary listing of our Company's Class A Ordinary Shares (as detailed below) on the Main Board of the Stock Exchange as an issuer with weighted voting rights structure under Chapter 8A of the Listing Rules.

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue; (ii) the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans; and (iii) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on a one to one basis.

Dealings in the Class A Ordinary Shares on the Stock Exchange are expected to commence on December 30, 2022.

BRIDGING ARRANGEMENTS

In connection with the Listing, the Designated Dealer and/or the Alternate Designated Dealer have been appointed as bridging dealer and alternate bridging dealer respectively and intend to implement certain bridging arrangements during the Bridging Period (being one month from and including the Listing Date). The Designated Dealer and the Alternate Designated Dealer have been appointed for a period of one month commencing from the Listing Date. The Bridging Period will end on January 29, 2023.

In connection with the bridging arrangements, on December 22, 2022, The Hongkong and Shanghai Banking Corporation Limited as borrower, entered into a stock borrowing and lending agreement (the "**Stock Borrowing Agreement**") with Lera Ultimate Limited as lender (the "**Lender**"). Pursuant to the Stock Borrowing Agreement, the Lender will make available to the borrowers stock lending facilities of 50,000,000 Class A Ordinary Share (the "**Borrowed Shares**"), or approximately 5.72% of the Class A Ordinary Shares in issue immediately upon Listing (without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans), on one or more occasions, subject to applicable Laws. The Borrowed Shares will be registered on our Hong Kong Share register and admitted into CCASS prior to

SUMMARY

and upon Listing. The Borrowed Shares shall be returned to the Lender no later than 20 Business Days after the expiry of the Bridging Period. For further details, see “Market Arrangements to Facilitate Dealings in Hong Kong — Bridging Arrangements.”

INVESTOR EDUCATION

Prior to Listing, our Company and the Joint Sponsors will cooperate to inform the investor community of general information about our Company, as well as developments and/or changes to the market arrangements disclosed in this document. After Listing, our Company and the Joint Sponsors may continue to take measures to educate the public. The measures, including but not limited to media briefings and press interviews, analyst briefings to local brokerages/research houses that cover Hong Kong-listed companies and publication of announcements containing, among other matters, information on the developments and updates of the liquidity arrangements, may be taken to enhance transparency of our Company and the bridging arrangements as appropriate. For further details, see “Market Arrangements to Facilitate Dealings in Hong Kong — Investor Education”.

LISTING EXPENSES

Listing expenses mainly include (i) sponsor-related expenses of approximately HK\$23.5 million, and (ii) non-sponsor related expenses of approximately HK\$70.4 million, which consist of, professional fees paid to the reporting accountant, legal advisers and other professional parties for their services rendered in relation to the Listing of approximately HK\$56.4 million and other fees and expenses of approximately HK\$14.0 million. Approximately HK\$2.9 million and HK\$2.1 million of the listing expenses were recognized and charged to our consolidated statement of comprehensive income during the year ended December 31, 2021 and the six months ended June 30, 2022, respectively. After June 30, 2022, we expect approximately HK\$88.9 million of the listing expenses will be charged to the profit or loss of our Company. The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate.

DIVIDEND AND DIVIDEND POLICY

Dividend

We did not declare or distribute any dividend to our Shareholders during the years ended December 31, 2019, 2020, 2021, and for the six months ended June 30, 2022.

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 to declare 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. 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, Mainland China, Singapore, the United States and Australia 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 “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Foreign Exchange — Regulations on Dividend Distribution.”

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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 depositary, as the registered holder of such ordinary shares, and the depositary 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.

IMPACT OF THE COVID-19 PANDEMIC ON OUR OPERATIONS

The ongoing COVID-19 pandemic has disrupted the business operations of many companies globally. We have taken a series of measures in response to the outbreak to protect our employees. See “Business — Health, Work Safety, Social Responsibility and Environmental Matters.” Our operations, including our services to our clients and internal control over financial reporting, have not been materially and adversely affected by these measures as we timely implemented our business continuity plan.

In July 2018, we were the first securities broker in Hong Kong to offer completely online-based account opening services, according to CIC, while many traditional financial institutions still utilize offline account opening and customer service models and had to suspend the operations at their physical branches as a result of the pandemic from time to time, which underscores the merits of a pure online one-stop financial technology platform where clients can enjoy an end-to-end mobile experience for everything from account opening to trade execution, margin lending, mutual fund investments, market news and social interaction.

We witnessed huge market volatility in the global capital markets in 2020, 2021, and the six months ended June 30, 2022. Such volatility has led to new account sign-ups, increasing trading velocity and higher net asset inflow, which benefited our operating and financial results for these periods. In the second quarter of 2022, our total client assets increased by 12.3% quarter-over-quarter to HK\$433.6 billion, primarily due to strong net asset inflow across regions. Our paying clients reached 1.38 million as of June 30, 2022, representing 38.6% year-over-year growth. Despite the increased market volatility, our rigorous risk management systems and procedures have prevented us from incurring any material losses in relation to margin financing business, and we had not identified any material COVID-19-related contingencies or impairments as of the Latest Practicable Date. Our business operation and financial performance had not been materially and adversely affected by the COVID-19 pandemic during the Track Record Period and up to the Latest Practicable Date.

While we experienced business growth in 2020 and 2021, we cannot predict whether this will continue at the same level in the future and whether client behavior will continue in a manner that is favorable to us. The improvement in our business and financial performance in 2020, 2021 and the first half of 2022 may not be sustainable. As there is still uncertainty around the duration of the pandemic, we cannot ascertain the potential impact of the pandemic on investor sentiments and the possibility of other effects on our business. In the event that this epidemic cannot be effectively and timely contained, our ability to consistently offer new products and services in the future may be disrupted, which in turn may harm the growth rate and retention of our clients, as well as our financial performance generally. The near-term economic impact of the COVID-19 outbreak is also uncertain.

See “Financial Information — Impact of COVID-19 on Our Operations” for more details.

REGULATORY OVERVIEW AND RECENT REGULATORY DEVELOPMENT

Regulatory Overview

As an online financial services platform, our licensed entities are subject to the laws and regulations of the relevant jurisdictions where they operate. Futu International Hong Kong is a SFC-licensed corporation subject to the SFO. Moomoo Financial Inc. and Futu Clearing Inc., as SEC-registered broker-dealers, are subject to the rules and regulations of the SEC and FINRA. Moomoo Financial Singapore, as a Capital Markets Services Licencee in Singapore, is subject to the rules and regulations by the MAS and other relevant regulatory authorities in Singapore. Futu Australia, which holds an Australian Financial Services License, is regulated by the Australian Securities and Investments Commission and subject to its rules and regulations. We do not engage in securities brokerage business in Mainland China and therefore we do not hold any license or permit for providing securities brokerage business in Mainland China.

SUMMARY

Our licensed entities are subject to various regulatory requirements, including those specified in laws, regulations and guidelines issued by the competent regulatory authorities in Hong Kong, US, Singapore and Australia, including but not limited to the SFC, MAS, SEC, FINRA and the ASIC. Futu International Hong Kong is a licensed corporation under the SFO and may be subject to SFC inquiries and investigations from time to time. As of the Latest Practicable Date, Futu International Hong Kong was involved in certain ongoing investigations initiated by the SFC concerning matters including, among others, client onboarding processes, risk management, client assets, cybersecurity, anti-money laundering, counter-financing terrorism and operation of mobile application. In addition, Futu International Hong Kong was involved in an ongoing investigation concerning matters, including, among others, online account opening procedures and product due diligence. The SFC's inquiries and investigation 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 document unless otherwise consented by the SFC. As the foregoing inquiries and investigation from the 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 investigation, if so, the nature and extent of any such action. If, after the SFC's inquiries and investigation have been concluded, the SFC identifies misconduct or material non-compliance, the 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. Our Group had not been subject to any enforcement or disciplinary actions initiated by the SEC during the Track Record Period and up to the Latest Practicable Date.

Key Regulatory Developments in China

Regulations relating to overseas listing

According to Article 6 of the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**2021 Negative List**”) which took effect on January 1, 2022, with respect to the securities offering and listing in an overseas market by a domestic company engaging in the fields prohibited by the 2021 Negative List, the consent of the relevant competent authorities of the State shall be obtained, and overseas investors shall not participate in the operation and management of the enterprise, and overseas investors' shareholding percentage shall be subject to the relevant provisions on administration of domestic securities investment by overseas investors. On December 24, 2021, the CSRC issued the Provisions of the State Council on Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) 《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》 (the “**Draft Administration Provisions**”), and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) 《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》 (the “**Draft Filing Measures**”), which were open for public comments until January 23, 2022. As of the Latest Practicable Date, the Draft Administration Provisions and the Draft Filing Measures have not been formally adopted and the relevant PRC laws and regulations have not yet made clear provisions on whether regulatory opinions, record-filing or approval documents issued by the competent industry authorities are required to be obtained for the indirect overseas issuance and listing of securities by domestic companies through a VIE structure. It is also unclear how the CSRC will seek the opinions of competent industry authorities or relevant authorities in the record-filing process in case of companies involved in prohibited sectors under the 2021 Negative List. For details, see “Risk Factors — Risks Related to Our Presence in China — The approval of the CSRC or other PRC government authorities may be required in connection with the Listing under PRC law, and, if require, we cannot predict whether or for how long we will be able to obtain such approval.” and “Contractual Arrangements — Developments in the PRC Legislation on Foreign Investment — Filings and Approvals from PRC Governmental Authorities”.

Regulations relating to Cybersecurity and Data Privacy

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. On August 20, 2021, the Standing Committee of the National People's Congress promulgated the Personal Information Protection Law of the PRC (《中華人民共和

SUMMARY

國個人信息保護法》), effective from November 1, 2021. On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) which has become effective on September 1, 2022. Such data export measures requires that any data processor which processes or exports personal information exceeding certain volume threshold under such measures shall apply for security assessment by the CAC before transferring any personal information abroad. For details on CAC assessment of data transfer, see “Business — Regulatory Development — PRC Cybersecurity and Data Protection — Other applicable PRC data security and cybersecurity laws and regulations” and “Risk Factors — Risks Related to Our Business and Industry — Our operations and services involve collection, processing, and storage of significant amounts of data concerning our clients, business partners and employees and may be subject to complex and evolving laws and regulations regarding privacy and data protection and cybersecurity. If we fail to comply with the relevant laws and regulations, our business, results of operations and financial condition may be adversely affected.”

On July 30, 2021, the State Council promulgated the Regulations on Protection of Security of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), effective on September 1, 2021. On December 28, 2021, the CAC, the NDRC, the MIIT, and several other PRC regulatory authorities jointly issued the Cybersecurity Review Measures (《網絡安全審查辦法》) which became effective on February 15, 2022. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that procure internet products and services, and network platform operators engaging in data processing activities, must be subject to the cybersecurity review if their activities affect or may affect national security. The Cybersecurity Review Measures further stipulate that network platform operators holding over one million users’ personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before listing in a foreign country (國外上市). Furthermore, on November 14, 2021, the CAC published the Regulations on Network Data Security Management (Draft for Comment) (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Regulations on Network Data, which reiterate the circumstances under which data processors shall apply for cybersecurity review. However, it provides no further explanation or interpretation as to how to determine what “may affect national security,” and there remain uncertainties whether we would be subject to the cybersecurity review for this Listing pursuant to such measures. For more details on cybersecurity review, see “Business Regulatory Development — PRC Cybersecurity and Data Protection” and “Risk Factors — Risks Related to Our Business and Industry — Our operations and services involve collection, processing, and storage of significant amounts of data concerning our clients, business partners and employees and may be subject to complex and evolving laws and regulations regarding privacy and data protection and cybersecurity. If we fail to comply with the relevant laws and regulations, our business, results of operations and financial condition may be adversely affected.”

On March 12, 2021, the CAC, the MIIT, the MPS and the SAMR collectively promulgated the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》), which came into effect on May 1, 2021. Furthermore, the CAC promulgated the Administrative Provisions on Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》), or the Mobile Application Administrative Provisions, and further revised it on June 14, 2022, which became effective on August 1, 2022. Pursuant to the Mobile Application Administrative Provisions, mobile internet app providers refer to the owners or operators of mobile internet apps. For more details, please see “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Cybersecurity and Privacy — Regulations on Privacy Protection.”

RECENT DEVELOPMENT

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2022, being the end date of the periods reported in the Accountant’s Report set out in Appendix IA, and there is no event since June 30, 2022 that would materially affect the information shown in the Accountant’s Report set out in Appendix IA up to the date of this document. Our financial performance for the year ending December 31, 2022 is expected to be adversely affected by a decline in trading volume of the global securities markets from the high base in 2021 when market peaked.

SUMMARY

The table below summarizes our results of operations for the periods indicated, which were extracted from the unaudited interim condensed consolidated financial information as set out in Appendix IB:

	For the Nine months ended September 30,		
	2021	2022	
	HK\$ (unaudited)	HK\$ (in thousands) (unaudited)	US\$ (unaudited)
Total revenues	5,512,511	5,333,308	679,420
Total costs	(989,211)	(653,962)	(83,309)
Total gross profit	4,523,300	4,679,346	596,111
Total operating expenses	(1,900,940)	(2,231,107)	(284,225)
Income before income tax expenses and share of loss from equity method investment	2,612,669	2,229,064	283,965
Net income	2,311,401	1,968,168	250,729

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Revenues

Our revenues decreased by 3.3% from HK\$5,512.5 million in the nine months ended September 30, 2021 to HK\$5,333.3 million (US\$679.4 million) in the nine months ended September 30, 2022.

- *Brokerage commission and handling charge income.* Our brokerage commission and handling charge income decreased by 3.2% from HK\$3,056.1 million in the nine months ended September 30, 2021 to HK\$2,959.1 million (US\$377.0 million) in the nine months ended September 30, 2022. The decrease was primarily due to a decline in trading volume compared to the same period in 2021 when market peaked, which was partially offset by an increase in the blended commission rate as applied based on trading volume from 6.2 basis points to 7.9 basis points.
- *Interest income.* Interest income increased by 9.3% from HK\$1,900.6 million in the nine months ended September 30, 2021 to HK\$2,076.5 million (US\$264.6 million) in the nine months ended September 30, 2022. The increase was mainly driven by higher interest income from bank deposits amid rate hikes despite lower margin financing income and IPO financing interest income.
- *Other income.* Our other income decreased by 46.4% from HK\$555.8 million in the nine months ended September 30, 2021 to HK\$297.8 million (US\$37.9 million) in the nine months ended September 30, 2022. The decrease was primarily due to lower IPO financing service charge income and underwriting fee income.

Costs

Our total costs decreased by 33.9% from HK\$989.2 million in the nine months ended September 30, 2021 to HK\$654.0 million (US\$83.3 million) in the nine months ended September 30, 2022.

Operating expenses

Our total operating expenses increased by 17.4% from HK\$1,900.9 million in the nine months ended September 30, 2021 to HK\$2,231.1 million (US\$284.2 million) in the nine months ended September 30, 2022. The increase was mainly driven by an increase in employee compensation and benefits from HK\$785.2 million to HK\$ 1,497.8 million, which was primarily due to (i) an increase in headcount for across various functions, and (ii) an increase in the number of RSUs granted to our employees under the 2019 Share Incentive Plan in 2022.

SUMMARY

Net income and net income margin

We recorded net income of HK\$1,968.2 million (US\$250.7 million) and net income margin at 36.9% in the nine months ended September 30, 2022, compared to net income of HK\$2,311.4 million and net income margin at 41.9% in the nine months ended September 30, 2021.

See “Financial Information — Recent Development — Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021.”

SUMMARY OF THIRD QUARTER 2022 HIGHLIGHTS

- **Total revenues** increased 12.4% year-over-year to HK\$1,945.6 million (US\$247.9 million).
- **Total gross profit** increased 18.0% year-over-year to HK\$1,727.5 million (US\$220.1 million).
- **Net income** increased 22.7% year-over-year to HK\$754.6 million (US\$96.1 million).
- **Total number of paying clients** increased 23.8% year-over-year to 1,444,955 as of September 30, 2022.
- **Total number of users** increased 15.6% year-over-year to 19.2 million as of September 30, 2022.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions shall have the following meanings.

“2014 Plan”	the share incentive plan our Company adopted in October 2014 and amended in December 2018, as amended from time to time, the principal terms of which are set out in “Appendix IV — Statutory and General Information — D. Share Incentive Plans”
“2019 Plan”	the share incentive plan our Company adopted in December 2018, as amended from time to time, the principal terms of which are set out in “Appendix IV — Statutory and General Information — D. Share Incentive Plans”
“ADS(s)”	American depository shares, each of which represents eight Class A Ordinary Shares
“AFRC”	Accounting and Financial Reporting Council
“AMCM”	Monetary Authority of Macao
“Articles” or “Articles of Association”	the fourth amended and restated articles of association of our Company adopted by a special resolution of the shareholders of our Company on December 28, 2018 and effective on March 12, 2019, as amended from time to time, a summary of which is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Companies Act”
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Futu”	Beijing Futu Network Technology Co., Ltd. (北京市富途網絡科技有限公司), a company established under the laws of PRC with limited liability on April 4, 2014, and a Consolidated Affiliated Entity of our Company
“Beijing Shensi Consulting”	Beijing Shensi Consulting Services Co., Ltd. (北京慎思諮詢服務有限公司), a company established under the laws of PRC with limited liability on December 8, 2021, and a Consolidated Affiliated Entity of our Company
“Board”	the board of directors of our Company

DEFINITIONS

“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong or other relevant jurisdictions are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAC”	the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室)
“Cayman Companies Act”	the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China”, “Mainland China” or the “PRC”	the People’s Republic of China for the purpose of this document and for geographical reference only, except where the context requires, references in this document to “China”, “Mainland China” and the “PRC” do not apply to Hong Kong, Macau Special Administrative Region of the PRC and Taiwan Region

DEFINITIONS

“Class A Ordinary Shares”	the Class A ordinary shares in the share capital of the Company with a par value of US\$0.00001 each, conferring a holder of a Class A ordinary share one vote per share on all matters subject to the vote at general meetings of the Company
“Class B Ordinary Shares”	the Class B ordinary shares in the share capital of the Company with a par value of US\$0.00001 each, conferring weighted voting rights in our Company such that a holder of a Class B ordinary share is entitled to, upon Listing, ten votes per share on all matters subject to the vote at general meetings of the Company, subject to the requirements under Rule 8A.24 of the Listing Rules that the Reserved Matters shall be voted on a one vote per share basis. Please see “Share Capital — Weighted Voting Rights Structure” for the specified exception for the compliance of Rule 8A.24 of the Listing Rules for further details
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “the Company”	Futu Holdings Limited, a company with limited liability incorporated in the Cayman Islands on April 15, 2014
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	entities that we control wholly or partly through the Contractual Arrangements, namely our VIEs and their subsidiaries, details of which are set out in the sections headed “History and Corporate Structure” and “Contractual Arrangements”
“Contractual Arrangements”	the series of contractual arrangements entered into between the WFOE, our VIEs and the Registered Shareholders (as applicable), as detailed in the section headed “Contractual Arrangements”

DEFINITIONS

“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules, and unless the context otherwise requires, refers to Mr. Li and the entities through which Mr. Li has an interest in our Company, details of which are set out in the section headed “Relationship with our Controlling Shareholders”
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“DTC”	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the U.S. and the clearance system for the ADSs
“FINRA”	Financial Industry Regulatory Authority, Inc.
“Foreign Investment Law”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), promulgated by the National People’s Congress in March 2019, which became effective on January 1, 2020
“Futu Australia”	Futu Securities (Australia) Ltd., a company with limited liability incorporated in Australia on February 15, 2001 and our wholly-owned subsidiary
“Futu International Hong Kong” or “Futu Securities”	Futu Securities International (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on April 17, 2012 and our wholly-owned subsidiary
“GAAP”	generally accepted accounting principles
“Group”, “our Group”, “the Group”, “we”, “our” or “us”	the Company and its subsidiaries and Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Hainan Caixuetang”	Hainan Caixuetang Education Network Technology Co., Ltd. (海南財學堂教育網絡科技有限公司), a company established under the laws of PRC with limited liability on December 14, 2020, and a Consolidated Affiliated Entity of our Company

DEFINITIONS

“Hainan Futu”	Hainan Futu Information Services Co., Ltd. (海南富途信息服務有限公司), a company established under the laws of PRC with limited liability on May 25, 2018, and a Consolidated Affiliated Entity of our Company
“HKMA”	Hong Kong Monetary Authority
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollar(s)” or “HK dollar(s)” or “HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
“Joint Sponsors”	Goldman Sachs (Asia) L.L.C. and UBS Securities Hong Kong Limited
“Latest Practicable Date”	December 15, 2022, being the latest practicable date for ascertaining certain information in this document before its publication
“Listing” or “Introduction”	the listing of the Class A Ordinary Shares on the Main Board of the Stock Exchange by way of introduction pursuant to the Hong Kong Listing Rules
“Listing Date”	the date, expected to be on or about Friday, December 30, 2022, on which the Class A Ordinary Shares are to be listed and on which dealings in the Class A Ordinary Shares are to be first permitted to take place on the Hong Kong Stock Exchange

DEFINITIONS

“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the fourth amended and restated memorandum of association of our Company adopted by a special resolution of the shareholders of our Company on December 28, 2018 and effective on March 12, 2019, as amended from time to time, a summary of which is set out in “Appendix III — Summary of the Constitution of the Company and Cayman Companies Act”
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Moomoo Financial Singapore”	Moomoo Financial Singapore Pte. Ltd., a company with limited liability incorporated in Singapore on December 17, 2019 and our wholly-owned subsidiary
“MPS”	the Ministry of Public Security of the PRC (中華人民共和國公安部)
“Mr. Li”	Mr. Leaf Hua Li, our founder, chairman of the Board, executive Director and chief executive officer, and the Controlling Shareholder of our Company
“Nasdaq” or “Nasdaq Global Market”	The Nasdaq Global Market
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“PBOC”	The People’s Bank of China

DEFINITIONS

“PRC Legal Advisors”	Han Kun Law Offices and CM Law Firm, our legal advisors as to PRC laws
“Pre-Funded Warrant(s)”	the pre-funded warrants to purchase 53,600,000 Class A Ordinary Shares issued by the Company pursuant to a securities purchase agreement dated December 8, 2020, which were immediately exercisable upon the issuance and had a termination date in June 2022
“Registered Shareholders”	the registered shareholders of each of our VIEs, namely, Mr. Li and Ms. Lei Li
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of our Company pursuant to Rule 8A.24 of the Listing Rules
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the SAMR
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“SEC”	the U.S. Securities and Exchange Commission
“SFC”	Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGD” or “S\$”	Singapore dollars, the lawful currency of Singapore

DEFINITIONS

“Share(s)”	the Class A Ordinary Shares and Class B Ordinary Shares in the share capital of the Company, as the context so requires
“Share Incentive Plans”	collectively, the 2014 Plan and the 2019 Plan
“Shensi Beijing”	Shensi Network Technology (Beijing) Co., Ltd. (慎思網絡技術(北京)有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on September 15, 2014, and our wholly-owned subsidiary
“Shenzhen Futu”	Shenzhen Futu Network Technology Co., Ltd. (深圳市富途網絡科技有限公司), a company established under the laws of PRC with limited liability on December 18, 2007, a Consolidated Affiliated Entity of our Company
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code” or “Hong Kong Takeovers Code”	Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tencent”	Tencent Holdings Limited, a company listed on the Stock Exchange (stock code: 700), one of our substantial shareholders
“Tencent Entities”	collectively, Qiantang River Investment Limited, Image Frame Investment (HK) Limited, Tencent Mobility Limited, TPP Opportunity GP I, Ltd. and Distribution Pool Limited which are entities controlled by Tencent and are our Shareholders
“Tencent Group”	Tencent and its subsidiaries and consolidated affiliated entities, from time to time
“Track Record Period”	the three years ended December 31, 2021 and the six months ended June 30, 2022

DEFINITIONS

“U.S. dollars”, “US dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. GAAP”	Generally Accepted Accounting Principles in the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“VIE(s)”	Shenzhen Futu and Hainan Futu
“weighted voting right”	has the meaning ascribed to it under the Listing Rules
“WFOE”	Shensi Beijing
“WVR Beneficiary”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Li, being the beneficial owner of the Class B Ordinary Shares which carry weighted voting rights, details of which are set out in the section headed “Share Capital”
“WVR structure”	has the meaning ascribed to it in the Listing Rules
“%”	per cent

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ACH”	Automated Clearing House
“AI”	artificial intelligence
“API”	Application Programming Interface
“ATM”	automated teller machine
“AUM”	assets under management
“availability rate”	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”	the average number of DAUs on each trading day during a specific period
“clients”	the number of users who open one or more trading accounts with us
“client asset balance”	the asset balance in the trading accounts of our paying clients
“DARTs”	daily average revenue trades
“DAUs”	the number of user accounts and visitors who access our platforms <i>Futubull</i> and/or <i>moomoo</i> , at least once on a given trading day. Some visitors may access our platforms using more than one device on a given trading day, and we calculate the number of visitors who access our platforms based on the number of devices used by the visitors to access our platforms
“DDA”	Direct Debit Authentication
“eDDA”	Electronic Direct Debit Authorization
“ESOP”	Employee Stock Ownership Plan

GLOSSARY OF TECHNICAL TERMS

“ETF”	Exchange traded fund
“FPS”	Faster Payment System
“grey market”	undeclared transactions concluded outside the trading system of the Hong Kong Stock Exchange, and the trading of new shares of a company prior to their formal trading on the Hong Kong Stock Exchange by persons already in possession of or expected to be in possession of the new shares (also commonly known as dark pool trading services)
“institutional investor”	an entity that is financially sophisticated and makes large investments, often held in very large portfolios of investments
“IPO”	initial public offering
“KYC”	Know-your-client
“loan-to-value ratio”	calculated as net margin loan balance extended to margin clients divided by value of collateral received from margin clients
“MAUs”	the number of user accounts and visitors who access <i>Futubull</i> and/or <i>moomoo</i> at least once during the calendar month in question. Some visitors may access our platforms access our platforms using more than one device in a given month, and we calculate the number of visitors who access our platforms based on the number of devices used by the visitors to access our platforms
“paying clients”	the number of clients with assets in their trading accounts with us
“professional investor”	has the meaning ascribed to it under Part 1 of Schedule 1 to the SFO (including those prescribed by rules made under section 397 of the SFO)
“retail investor”	an individual investor that purchases securities and other investment assets
“SMS”	Short Messaging Service

GLOSSARY OF TECHNICAL TERMS

“Stock Connect”	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
“TWAP”	time weighted average price
“UGC”	user-generated content
“users”	the number of user accounts registered with our applications or websites
“VWAP”	volume weighted average price

For each relevant period prior to January 1, 2021, “users”, “MAUs” and “average DAUs” figures disclosed in this document are only inclusive of those under *Futubull*, due to insignificant figures recorded under *moomoo*. Since January 1, 2021, the numbers disclosed in this document include figures under *Futubull* and *moomoo* for each subsequent period. The number of users is determined based on the user accounts registered with *Futubull* and *moomoo*.

For each relevant period prior to January 1, 2021, “clients”, “paying clients”, “client asset balance”, “trading volume” and other client-based figures disclosed in this document are only inclusive of those under Futu International Hong Kong, due to insignificant figures recorded under Moomoo Financial Inc.. Since January 1, 2021, the figures disclosed in this document include those under Futu International Hong Kong, Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia for each subsequent period.

FORWARD-LOOKING STATEMENTS

This document contains, and the documents incorporated by reference herein may contain certain statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s),” “aim(s),” “estimate(s),” “plan(s),” “project(s),” “anticipate(s),” “expect(s),” “intend(s),” “may,” “seek(s),” “can,” “could,” “ought to,” “potential,” “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “estimate(s)” only refer to situations where best estimates have been adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this document. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- our operations and business prospects;
- our ability to maintain relationship with, and the actions and developments affecting, our customers and suppliers;
- future developments, trends and conditions in the industries and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment in the industries and markets in which we operate;
- the ability of third parties to perform in accordance with contractual terms and specifications;

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- our ability to retain senior management and key personnel, and recruit qualified staff;
- our business strategies and plans to achieve these strategies, including our expansion plans;
- the actions and developments of our competitors;
- our ability to reduce costs and offer competitive prices;
- our ability to defend our intellectual rights and protect confidentiality;
- change or volatility in interest rates, foreign exchange rates, equity prices, trading volumes, commodity prices and overall market trends;
- capital market developments; and
- our dividend policy.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document reflect our management's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this document, which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable laws, we undertake no obligation to revise any forward-looking statements that appear in this document to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this document. All forward-looking statements in this document are qualified by reference to this cautionary statement.

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An investment in our Class A Ordinary Shares or ADSs involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, before deciding to invest in our Class A Ordinary Shares or ADSs. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such event, the market price of our Class A Ordinary Shares or ADSs could decline, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our historical growth rates may not be indicative of our future growth, which makes it difficult to evaluate our future prospects.

We launched our online brokerage business in 2012 and experienced rapid growth in both our businesses since our inception. Our total revenues increased by 211.9% from HK\$1,061.6 million in 2019 to HK\$3,310.8 million in 2020, and further by 114.9% to HK\$7,115.3 million in 2021 and decreased by 10.4% from HK\$3,781.5 million for the six months ended June 30, 2021 to HK\$3,387.7 million (US\$431.7 million) for the same period in 2022. Our historical growth rates may not be indicative of our future growth, and we cannot assure you that we will be able to maintain similar growth rates in the future or our efforts may prove more costly than we currently anticipate such that we may not succeed in increasing our revenues sufficiently to offset these higher expenses. If our growth rate declines or fluctuates, investors’ perceptions of our business and business prospects may be adversely affected and the market price of our Class A Ordinary Shares or ADSs could decline. In addition, we have limited experience in new services and products launched in the past few years. As our business develops and we respond to competition, we may continue to introduce new service offerings, adjust our existing services or 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 operation. It is therefore difficult to effectively assess our future prospects.

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.

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You should consider our business and prospects in light of the risks and uncertainties that fast-growing companies in a quickly-evolving and extensively regulated industry may encounter. These risks and challenges include, among other things, our ability to:

- sustain high growth in the future;
- navigate a complex and evolving regulatory environment as well as economic condition and fluctuation;
- offer personalized and competitive online brokerage, wealth management product distribution and other financial services;
- increase the utilization of our services by existing and new users and clients;
- offer attractive commission rates while driving the growth and profitability of our business;
- maintain and enhance our relationships with business partners, including funding partners for our margin financing business and fund companies for our wealth management product distribution 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 systems;
- improve our operational efficiency;
- attract, retain and motivate talented employees to support our business growth; and
- defend ourselves against legal and regulatory actions.

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 such culture to meet the needs of our future and evolving operations as we continue to grow, in particular as we expand 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.

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We are subject to extensive and evolving regulatory requirements in the markets we operate in, 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 investigation by relevant regulators.

We are subject to extensive regulations and the markets in which we operate including Hong Kong, Singapore, the United States and Australia, are highly regulated. However, the online 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. We may be subject to examinations and inquiries by the relevant regulators on a regular or ad-hoc basis. Our business operations in Hong Kong are subject to applicable Hong Kong laws, regulations, guidelines, circulars, and other regulatory guidance, or collectively the HK Brokerage Regulations, including, for example, the SFO and its subsidiary legislation. These HK Brokerage Regulations 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 “Regulations — Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong.” In addition, our operations in the United States are subject to applicable United States laws, rules and regulatory guidance, or collectively the US Brokerage Regulations, including, for example, the U.S. Securities and Exchange Act of 1934 (the “**Exchange Act**”), rules and guidance adopted under the Exchange Act by the SEC and rules and guidance adopted by the Financial Industry Regulatory Authority (the “**FINRA**”). Also, our operations in Singapore are subject to applicable Singapore laws and regulatory requirements, or collectively the Singapore Brokerage Regulations, including the Securities and Futures Act 2001 of Singapore (2020 Revised Edition) (the “**Securities and Futures Act**”), and its subsidiary legislation such as the Securities and Futures (Licensing and Conduct of Business) Regulations. In Singapore, we hold a Capital Markets Services Licence issued by the Monetary Authority of Singapore (the “**MAS**”), and we are required to abide by relevant regulatory notices and guidelines issued by the MAS. See “Regulations — Overview of the Laws and Regulations Relating to Our Business and Operations in the United States” and “Regulations — Overview of the Laws and Regulations Relating to Our Business and Operations in Singapore.” Futu Australia, which holds an Australian Financial Services License, is regulated by the Australian Securities and Investments Commission. Failure to comply with applicable laws and regulations in markets we operate 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 of such nature 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.

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From time to time, Futu International Hong Kong, as a SFC-licensed corporation may be subject to or required to assist in inquiries or investigations by relevant regulatory authorities in Hong Kong, principally the SFC. The 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 are subject to such regulatory examination, reviews and inquiries from time to time. If any misconduct is identified as a result of inquiries, reviews or investigations, the SFC may take disciplinary actions which could 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 are subject to statutory secrecy obligations under the SFO whereby we may not be permitted to disclose details on any SFC inquiries, reviews or investigations without the consent of the SFC. Moomoo Financial Inc. and Futu Clearing Inc., as SEC-registered broker-dealers, have been subject to examinations and enquiries initiated by the SEC and FINRA from time to time. They may also be subject to similar examinations, investigations, enquiries or other regulatory actions by such and other regulatory authorities in the future. Moomoo Financial Singapore, as a Capital Markets Services Licencee in Singapore, may be subject to similar examinations and regulatory actions initiated by the MAS or other relevant regulatory authorities in Singapore. Futu Australia, which holds an Australian Financial Services License, is regulated by the Australian Securities and Investments Commission.

While we do not believe we are conducting securities business in China, we cannot rule out the possibility that we will be subject to the supervision of the CSRC or other PRC government authorities in the future.

Pursuant to Articles 118 and 120 of the Securities Law of the PRC, “securities business” includes securities brokerage business, securities investment, securities margin trading, investment consulting business and other businesses approved by the securities regulatory authorities under the State Council. Shenzhen Futu, one of our operating entities in Mainland China, having the link embedded in *Futubull* platform to redirect users to the brokerage services provided by Futu International Hong Kong, the Company’s wholly-owned subsidiary in Hong Kong and a licensed corporation under the SFO. As advised by our PRC Legal Advisors, such services provided by Shenzhen Futu in Mainland China do not fall within the definition of “securities business” under the Securities Law as of the date of this document.

As advised by our PRC Legal Advisors, Futu International Hong Kong is regarded as an “overseas securities business entity” under Article 95 of the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》). The operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not constitute the provision of securities business in Mainland China. Our Group’s securities brokerage business is conducted outside Mainland China through its entities and employees licensed with the relevant regulators, such as the SFC in Hong Kong, and not through its operating subsidiaries in Mainland China. Therefore, our PRC legal advisors are of

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the view that the operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not violate the Securities Law, the Regulations on Supervision and Administration of Securities Firms and the Administrative Measures on Representative Offices of Foreign Securities Institutions Stationed in China (《外國證券類機構駐華代表機構管理辦法》) as of the date of this document. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Draft Measures on Securities Brokerage Business.” However, our PRC Legal Advisors also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations over the definition of “securities business”, Securities Law of the PRC and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》). Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors. In addition, there is no clear indication as to whether any new PRC laws and regulations will be enacted to impose any licensing requirements on us.

During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any other administrative penalty or investigation by CSRC or other relevant authorities in the PRC concerning our regulatory compliance with the Securities Law of the PRC that could, individually or in the aggregate, have a material adverse effect on the Group’s business operations, financial results and financial position.

As of the Latest Practicable Date, Futu International Hong Kong was involved in certain ongoing inquiries initiated by the SFC concerning matters including, among others, client onboarding processes, risk management, client assets, cybersecurity, anti-money laundering, counter-financing terrorism and operation of mobile application. In addition, Futu International Hong Kong was involved in an ongoing investigation concerning matters, including, among others, online account opening procedures and product due diligence. We are unable to accurately predict the outcome of such inquiries and investigation given their ongoing nature. See “Business — Legal Proceedings and Compliance — Ongoing Regulatory Actions.” We have been and may continue to be subject to inquiries or investigations by the SFC. There remains a risk that at the conclusion of the inquiries and the investigation, the SFC may identify misconduct, deficiency or material non-compliance, undertake investigation and 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 Regulations following the identification of any such misconduct, deficiency or material non-compliance, which may result in the 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 reputation, business, results of operations, financial conditions and prospects.

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Our online client onboarding procedures historically did not strictly follow the specified steps set out by the relevant authorities in Hong Kong, which may subject us to regulatory actions in addition to remediation, which may include, reprimands, fines, limitations or prohibitions on our future business activities and/or suspension or revocation of Futu International Hong Kong’s licenses and trading rights, and consequently may adversely affect our business, financial condition, operations, brand reputation and prospects.

As online brokerage services in Hong Kong 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 client onboarding procedures remain evolving and are subject to further changes. For the online application procedures followed by certain clients outside Hong Kong to open Hong Kong or U.S. trading accounts with us, see “Business — Retail Services — Account Opening and Fund Transfer — Account Opening.” The SFC’s current position on the expressly specified non-face-to-face approaches for account opening, including online account opening, in light of the SFC regulatory requirements is summarized in paragraph 5.1 of the SFC Code of Conduct, SFC circulars dated June 28, 2019, the relevant frequently asked questions (FAQs) and the SFC’s website regarding account opening approaches that the SFC would consider to be acceptable as updated by the SFC from time to time (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 and the relevant local government when onboarding clients. During the Track Record Period, our online client onboarding procedures for certain clients outside Hong Kong did not strictly follow the specified methods set out in the SFC Circulars, and we tested new e-certification procedures through mutually recognized certification authorities as part of our online onboarding process. Since September 2021, we have implemented new e-certification procedures through a mutually recognized certification authority as the online client onboarding procedures for our new clients and existing clients (who had not gone through such procedures or other specified methods set out in the SFC Circulars). We have not been subject to any disciplinary action in relation to our online client onboarding procedures. However, we have been and may continue to be subject to inquiries, investigations or disciplinary action by the SFC regarding our current and historical client onboarding procedures. See “— We are subject to extensive and evolving regulatory requirements in the markets we operate in, 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 investigation by relevant regulators.” There is no assurance that we will be able to achieve full implementation in a timely manner, or at all, with respect to the adoption of e-certification procedures or remediate our account opening or other procedures for all relevant existing clients retroactively or to make further adjustments to our online client onboarding processes as may be required by the SFC. We may need to take extensive time and incur additional costs and our customer experience may be adversely impacted. As a result, such remediation or adjustments may have a material adverse impact on our operations, business prospects, user

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experience and client acquisition and retention. If our online client onboarding procedures are determined by the SFC to be, or have been, not in compliance with the applicable laws, regulations, guidelines, circulars and other regulatory guidance, we may be subject to regulatory actions, which may include, in addition to remediation, reprimands, fines, limitations or prohibitions on our future business activities and/or suspension or revocation of Futu International Hong Kong's licenses and trading rights.

We do not hold any license or permit for providing securities brokerage business in Mainland China. Although we do not believe we engage in securities brokerage business in Mainland China, there remain uncertainties as to the interpretation and implementation of relevant PRC laws and regulations or if any new PRC laws and regulations will be enacted to impose licensing requirements on us with respect to our activities in Mainland China and/or our provision of services to our PRC-based clients. If some of our activities in Mainland China were deemed by relevant regulators as provision of securities business such as securities brokerage services, investment consulting services, futures business and/or any other regulated services and business activities in Mainland China, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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 the Laws and Regulations Relating to Our Presence in China — Regulations on Securities Business.” We do not hold any license or permit in relation to providing securities brokerage business in Mainland China. A significant portion of our technology, research and development, management, supporting and other teams are based in China and a large number of our users are PRC residents. While we do not believe the activities we are conducting now through our subsidiaries or Consolidated Affiliated Entities in China is securities brokerage business in China, we cannot assure you that certain of our activities such as redirecting users in China through embedded link to brokers or other licensed entities outside of China will not be deemed as operating securities brokerage business in China. In the past, we received inquiries or scrutiny relating to certain aspects of our activities, including publicity activities and investor education services, from certain regulatory authorities in China. We timely took measures to modify and enhance our business and platform to be in compliance with the current applicable PRC laws and regulations related to securities brokerage business in China. However, we cannot assure you that the measures we have taken or will take in the future will be effective or fully satisfy the relevant regulatory authorities' requirements.

Based on the opinion of our PRC Legal Advisors, we are not in violation of the current applicable PRC laws and regulations related to securities brokerage business in China in any material respect. However, there remain some uncertainties as to how the current and any future PRC laws and regulations will be interpreted or enforced in the context of operating securities related business in China. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Securities Business.” It also remains uncertain if PRC regulators will enact new laws and regulations to impose licensing

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requirements on us with respect to our activities in Mainland China and/or our provision of services to our PRC-based clients. If some of our activities in China or our provision of services to our client base in China were deemed by relevant regulators as provision of securities business such as securities brokerage services, investment consulting services, futures business and/or any other regulated services and business activities in China or any new PRC laws and regulations are enacted to impose license requirements on us with respect to our activities in China and/or our provision of services to our client base 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 or activities in the PRC, and temporary suspension or removal of our websites, desktop devices and mobile application in China. Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, approximately 68%, 31% and 1% of our individual paying clients as of December 31, 2019, 55%, 44% and 1% of our individual paying clients as of December 31, 2020, 38%, 39% and 23% of our individual paying clients as of December 31, 2021 and 35%, 39% and 26% of our individual paying clients as of June 30, 2022 were related to Mainland China, Hong Kong and other markets, respectively. Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, regardless of their residency, and the location where services were originated or conducted for corporate counterparties, our revenue related to Mainland China, Hong Kong and other markets accounted for approximately 69%, 30% and 1% of our total revenue in 2019, 60%, 39% and 1% of our total revenue in 2020, 52%, 46% and 2% of our total revenue in 2021, and 44%, 48% and 8% of our total revenue for the six months ended June 30, 2022, respectively. The revenue breakdown is not derived from our management accounts and is solely based on the relevant business data and our management estimate. Our Group does not distinguish between markets or segments for the purpose of internal reporting and has only one reportable segment in its consolidated financial statements. If we were to become subject to any of the above-mentioned regulatory actions and penalties or we would not be able to obtain the license or permit which may be imposed by any new PRC laws or regulations in a timely manner or at all, our client base in China and revenue attributable to such clients could be materially and adversely affected, resulting in a material adverse change to our business, financial condition, results of operations and prospects. In addition, while we have internal policies in place regulating relevant activities of our employees and their dealings with our business partners, if our employees or business partners engage in certain activities that relevant authorities would require permits or licenses for, we may be subject to regulatory enquiries or penalties and negative publicity.

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We face significant competition in the online brokerage and wealth management industries, 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 and wealth management product distribution 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 and worldwide, as we currently have operations in Singapore, the United States and Australia and may expand into other markets. In order 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, we have embarked on building such facilities and service enhancements.

In addition, the online brokerage and wealth management industries exhibit 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. Further, major international brokerage companies that have large retail online brokerage businesses as well as online brokerage units of commercial banks may also 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 and wealth management industries 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.

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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. 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. Our clients may not continue to place trading orders or increase the level of their trading activities through 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 through our platform in a timely manner and at favorable price terms, we cannot assure you that we will be able to retain existing clients due to reasons out of our control, such as our clients' personal financial reasons or the deterioration of the capital markets condition.

If we are unable to maintain or increase our client retention rates or generate new clients in a cost-effective manner, our business, financial condition and results of operations would likely be adversely affected. Historically, we incurred HK\$164.7 million, HK\$385.3 million and HK\$1,392.1 million and HK\$507.2 million (US\$64.6 million) in selling and marketing expenses, representing 15.5%, 11.6%, 19.6% and 15.0% of our total revenues in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Although we have spent significant financial resources on marketing expenses and plan to continue to do so, these efforts may not be cost-effective to attract new clients. We cannot assure you that we will be able to maintain or grow our client base in a cost-effective way. 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 facilitated by 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.

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Similar to other brokerage and financial services providers, we cannot guarantee the profitability of the investments made by clients through our platform. The profitability of our clients' investments is directly affected by elements beyond our control, such as economic and political conditions, broad trends in business and finance, changes in volume of securities transactions, changes in the markets in which such transactions occur and changes in how such transactions are processed. While we do not provide securities investment consulting services to our users and clients, we provide a social community to facilitate the provision of financial and market information. Although these materials and commentaries contain prominent disclaimers, our clients may seek to hold us responsible when they use such information to make trading decisions and suffer financial loss on their trades, or if their trades are not as profitable as they have expected. Furthermore, it is possible that some clients could solely rely on certain predictive statements made by other clients on our platform, ignoring our alert warnings that clients should make their own investment judgment and should not predict future performance based on historical records. As a result, the financial loss of our clients may affect our performance in terms of transaction volumes and revenues as clients decide to abort trading. In addition, some clients who have suffered substantial losses through our platform may blame our platform, seek to recover their damages from us or bring lawsuits against us.

Because our revenues and profitability depend largely on clients' trading volume, they are prone to significant fluctuations and are difficult to predict. Declines in clients' trading volume generally result in lower revenues from transaction execution activities, which may affect our financial condition, results of operations and prospects.

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 risk for losses on securities or other financial instruments held in inventory and buyers and sellers may be unable to fulfill their obligations, settle their trades, 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 particular the economic and political conditions in Hong Kong, the PRC, Singapore, the United States and Australia, 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

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funding sources, cost of funding and the level and volatility of interest rates. For example, volatility and drops in stock market performance and uncertainties in macroeconomic conditions caused by global calamities such as the ongoing COVID-19 pandemic and/or eruptions of regional tensions could negatively impact our revenues and profitability. As a result of these risks, our income and operating results may be subject to significant fluctuations. See “— Risks Related to Our Business and Industry — A sustained outbreak of the COVID-19 virus could have a material adverse impact on our business, operating results and financial condition.”

Tensions in international economic relations, in particular those between the U.S. and China, may have an adverse effect on our business, financial condition and results of operation.

There have been rising tensions in international economic relations in recent periods, including those between the United States and China. For example, in 2018 and 2019, the United States imposed import tariffs on specified products imported from China, and China has responded by imposing retaliatory tariffs on goods exported from the United States. In August 2020, political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the PRC central government and the executive orders issued by former U.S. President Donald J. Trump prohibiting certain transactions with ByteDance Ltd. and WeChat-related transactions with Tencent Holdings Ltd. and the respective subsidiaries of such companies. Although the above-mentioned executive orders had been subsequently withdrawn by the Biden Administration, rising trade, political and regulatory tension between the United States and China could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations.

On August 6, 2020, the former President of the United States issued an executive order prohibiting “any transactions that is related to WeChat by any person or with respect to any property, subject to the jurisdiction of the United States with Tencent Holdings Ltd., Shenzhen, China, or any subsidiary of that entity, as identified by the Secretary of Commerce under section 1(c) of this order.” The ban was subsequently lifted by the Biden Administration. As of the Latest Practicable Date, entities directly or beneficially owned by Tencent owned approximately 22.2% of the total issued share capital of the Company and approximately 35.0% of the voting power of the total issued and outstanding share capital of the Company, and we have certain business collaborations with Tencent. We also have business operations and hold relevant licenses in the United States, which had limited revenue contribution during the Track Record Period. Although we are of the view that there had been no material impact of the tensions between the U.S. and China on our business operations and financial performance during the Track Record Period and as of the Latest Practicable Date, we cannot assure you that there will not be rules or further executive orders prohibiting our business

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collaborations with Tencent. Upon the occurrence of such events, our business will be adversely impacted. In addition, any current and future actions or escalations by either the United States or China may cause global economic turmoil and potentially have a negative impact on our business, financial condition and results of operations, and we cannot provide any assurance as to whether such actions will occur or the form that they may take. See also “— The ADSs could be delisted and prohibited from trading “over the counter” if the Public Company Accounting Oversight Board is unable to inspect auditors located in China. The delisting of the ADSs and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment.”

If we fail to protect our platform or the information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-in, breaches by third parties 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.

Our computer system, the networks we use, the networks and online trading platforms of the exchanges and other third parties with whom we interact, are potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems or security breaches. A party that is able to circumvent our security measures could misappropriate proprietary information or customer information, jeopardize the confidential nature of the information we transmit over the Internet and mobile network or cause interruptions in our operations. We or our service providers may be required to invest significant resources to protect against the threat of security breaches or to alleviate problems caused by any breaches.

In addition, 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 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 intentional security breaches or other unauthorized access to our system could cause confidential user 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.

In addition, leakages of confidential information may be caused by third-party service providers or business partners. 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 may become susceptible to future claims if our users and clients suffer damages, and could incur significant liability and our business and operations could be adversely affected. Furthermore, our corporate clients may utilize our technology to serve their own employees

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and customers. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our clients to lose trust in us and could expose us to legal claims.

Our operations and services involve collection, processing, and storage of significant amounts of data concerning our clients, business partners and employees and may be subject to complex and evolving laws and regulations regarding privacy and data protection and cybersecurity. If we fail to comply with the relevant laws and regulations, our business, results of operations and financial condition may be adversely affected.

We are subject to a variety of laws, regulations and other legal and regulatory 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 and regulations that restrict or control the use of personal data. In China, the Cybersecurity Law became effective in June 2017 and requires network operators to follow the principles of legitimacy in collecting and using personal information. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Cybersecurity and Privacy.”

In addition, the Information Security Technology — Personal Information Security Specification (《信息安全技術—個人信息安全規範》), or the China Specification, came into force on October 1, 2020. Under the China Specification, after collecting the personal information, the controller of the personal information must immediately conduct the data de-identification, implement the technical and administrative measures to store separately the de-identified data and the data which may be used to recover the identity of the persons and make sure not to identify the persons in the subsequent process of processing the personal information data. In addition, 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.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), or the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection. The Personal Information Protection Law, which came into effect on November 1, 2021, aims at protecting the personal information rights and interests, regulating the processing of personal information, ensuring the orderly and free flow of personal information in accordance with the law and promoting the reasonable use of personal information. The Personal Information Protection Law applies to the processing of personal information within China, as well as certain personal information processing activities conducted by entities outside China for natural persons within China, including those for the provision of products and services to natural persons within China or for the analysis and

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assessment of acts of natural persons within China. Therefore, our PRC operating entities and our overseas subsidiary that directly collects personal data of PRC-based clients are subject to relevant personal information protection laws of the PRC.

In addition, the Personal Information Protection Law imposes pre-approval and other requirements for any cross-border data transfer by PRC entities. On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》), or the Data Export Measures, which became effective on September 1, 2022. The Data Export Measures require that any data processor which processes or exports personal information exceeding certain volume threshold under such measures shall apply for security assessment by the CAC before transferring any personal information abroad. The security assessment requirement also applies to any transfer of important data outside of China. Since the Personal Information Protection Law and the Data Export Measures are new, there are uncertainties as to the interpretation and application of it, especially in relation to its applicability and requirements for our offshore subsidiaries when they engage in personal information processing activities for natural persons within China, including the information collection activities conducted by our offshore subsidiaries outside the Mainland China. While we do not believe the pre-approval requirements for any cross-border data transfer will apply to the way we currently collect information from persons within China, if regulatory bodies deem our current data collection model as a cross-border data transfer, we will be subject to the relevant requirements. Furthermore, we may need to take certain additional measures in the future to be in compliance with the Personal Information Protection Law. See “Business – Regulatory Development – PRC Cybersecurity and Data Protection – Other applicable PRC data security and cybersecurity laws and regulations.”

Regulatory requirements on cybersecurity and data privacy are constantly evolving and can be subject to varying interpretations or significant changes, resulting in uncertainties about the scope of our responsibilities in that regard. For example, the SCNPC promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect on September 1, 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. In addition, the Personal Information Protection Law provides that critical information infrastructure operators or personal information processors whose processing of personal information reaches the threshold amount prescribed by the CAC, must store within the territory of the PRC the personal information collected or generated by them within the territory of the PRC. Unless otherwise a security assessment is not required as provided by law, administrative regulations or the national cyberspace authority, where it is necessary to provide such information to an overseas recipient, a security assessment organized by the CAC must have been passed. Then the CAC published Network Data Security Management Regulation (《網絡數據安全管理條例(徵求意見稿)》) on November 14, 2021 (the “**Draft Regulation**”), according to which, a data processor must apply to CAC for cybersecurity review if its proposed listing in Hong Kong affects or may affect national security. The Draft Regulation was in draft form for public comment and had not come into effect as of the Latest Practicable Date, and it remains uncertain as to whether and when it will take effect and to what extent it will take effect in its current form.

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On December 28, 2021, the CAC, the NDRC, the MIIT, and several other PRC governmental authorities jointly issued the Cybersecurity Review Measures (《網絡安全審查辦法》), which became effective on February 15, 2022 and replaced the Measures for Cybersecurity Review published on April 13, 2020. Pursuant to Cybersecurity Review Measures, critical information infrastructure operators (the “CIIO”) that purchase network products and services and network platform operators engaging in data processing activities that affect or may affect national security are subject to cybersecurity review under the Cybersecurity Review Measures. According to the Cybersecurity Review Measures, before purchasing any network products or services, a critical information infrastructure operator shall assess potential national security risks that may arise from the launch or use of such products or services and apply for a cybersecurity review with the cybersecurity review office of the CAC if national security will or may be affected. In addition, network platform operators who possess personal information of more than one million users and intend to be listed at a foreign stock exchange must be subject to the cybersecurity review.

Furthermore, taking the Regulations on the Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), or the CIIO Security Protection Regulations, and the Administrative Measures for Data Security in the Field of Industry and Information Technology (Trial) (Draft) (《工業和信息化領域數據安全管理辦法(試行)(徵求意見稿)》) issued by the MIIT, or the Draft Data Security Measures in the IIT Field, on February 10, 2022, into consideration, the exact scope of the CIIO under the Cybersecurity Review Measures and the current regulatory regime also remains unclear. As the rules for identification of CIIO with respect to our presence in the PRC have not been formulated nor promulgated yet and our PRC Legal Advisors are of the view that the proposed Listing in Hong Kong and our current business operations do not fall within the scope in which it is required to apply for such cybersecurity review as required by the Cybersecurity Review Measures; and we have not received any notice from any relevant governmental authority that we are identified as CIIO, we do not believe we are classified as a CIIO as of the Latest Practicable Date. However, the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws; therefore, it is uncertain whether we would be deemed as a CIIO under PRC law in the future. In the event we are classified as a CIIO or otherwise become under investigation or review by the CAC, we may have to substantially change certain of our current practice and our operations may be materially and adversely affected.

Since many of the PRC laws and regulations on cybersecurity and privacy and data privacy are constantly evolving, there are uncertainties as to the interpretation and application of these regulations and how these will be enforced by relevant regulatory authorities, there also remain uncertainties as to the applicability and requirements of these regulations for our business, operation, or our presence in Mainland China.

We cannot assure you that the measures we have taken or will take in the future will be effective or fully satisfy the relevant regulatory authorities’ requirements, and any failure or perceived failure by us to comply with such laws and regulations may result in governmental investigations, fines, removal of our app from the relevant application stores and/or other sanctions on us. As of the Latest Practicable Date, we had not been involved in any

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investigations on cybersecurity review made by the CAC on such basis, and we had not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC Legal Advisors do not expect that, as of the Latest Practicable Date, the current applicable PRC laws on privacy and data protection and cybersecurity would have a material adverse impact on our business.

The relevant regulatory authorities in China continue to monitor the websites and apps in relation to the protection of personal data, privacy and information security, and may impose additional requirements from time to time. The relevant regulatory authorities also release, from time to time, their monitoring results and require relevant enterprises listed in such notices to rectify their non-compliance. We have been and may also in the future be subject to the modification and rectification imposed by the relevant regulatory authorities, including those issued publicly. For example, during the Track Record Period, we had received a few such rectification notices and completed the rectification work in satisfaction of the relevant notices and regulatory requirements. We have not received further comments from the regulatory authorities on our rectification measures, nor have we received any final clearance on these measures. There is no assurance that the regulatory authorities will deem our rectification measures to be sufficient, or that they will issue any final clearance to us.

Similarly, Hong Kong, Singapore, the United States and Australia also have their respective data privacy legislation that regulates the collection, use, protection and handling of personal data. Under the relevant legislation, while the precise requirements may differ from jurisdiction to jurisdiction, in general, 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. 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.

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Our business growth and results of operations may be affected by changes in global and regional 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, Singapore, U.S., Australia 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.

A sustained outbreak of the COVID-19 virus could have a material adverse impact on our business, operating results and financial condition.

There has been a sustained outbreak of the COVID-19 virus globally. COVID-19 had a severe and negative impact on the global economy in 2020. Since 2020, governments around the globe have taken measures to contain the spread of the COVID-19 virus. For example, in response to intensifying efforts to contain the spread of COVID-19, governments worldwide took a number of actions, which included extending holidays, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and canceling public activities, among others. COVID-19 has also resulted in temporary closure of many corporate offices globally.

In addition, as the outbreak continues to threaten global economies, it may continue to cause significant market volatility and declines in general economic activities. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. There is considerable uncertainty over the long-term effects of the expansionary

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monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe.

We have taken a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of some offices, remote working arrangements for our employees and travel restrictions or suspension. In general, while these measures reduced the efficiency of our operations, we were not significantly impacted during the Track Record Period and as of the Latest Practicable Date and have benefited from an increase in funds flow and trading volume due to clients' switching to online trading when physical, offline facilities were closed. We cannot predict whether this increase in business activity will continue after clients are once again able to visit physical facilities. The extent to which COVID-19 impacts our results of operations will depend on the future developments of the pandemic, including the global severity of and actions taken to contain the pandemic, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the pandemic harms the global economy in general.

Any potential impact on our results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain COVID-19 or mitigate its impact, almost all of which are beyond our control. Before vaccines are made available to the general public, any relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions. Given the general slowdown in global economic conditions, volatility in the capital markets as well as the general negative impact of the COVID-19 pandemic on the brokerage and wealth management industry, we cannot assure you that we can launch new products and services in time or that we can maintain the growth rate we have experienced. Because of the uncertainty surrounding the COVID-19 pandemic, the financial impact related to the pandemic of and response to the coronavirus cannot be accurately estimated at this time, and we cannot assure you that our financial condition and operating results for 2022 will not be adversely affected. For a more detailed description on the expected impact of COVID-19 on our business, see "Financial Information — Impact of COVID-19 On Our Operations."

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations and adversely affect our business, financial condition or results of operation.

In addition to the impact of COVID-19, our business could be adversely affected by the effects of the Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome ("SARS"), or other epidemics. Our business operations could be disrupted if any of our employees is suspected of having the Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, or other epidemics, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the Chinese and global economy in general.

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We are also vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events 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 provide products and services through our platform.

In addition, our results of operations could be adversely affected to the extent that any health epidemic, natural disaster or other calamities harms the Chinese and global economies 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, Hong Kong, Singapore, the United States and Australia, and the storage location of our user data is dependent on the platform where users are based and the jurisdiction in which users are registered. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shenzhen, Hong Kong, Singapore, the United States or Australia, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

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. In 2019, 2020, 2021 and six months ended June 30, 2022, our brokerage commission income and handling charge income amounted to HK\$511.4 million, HK\$1,990.1 million, HK\$3,913.0 million and HK\$2,001.2 million (US\$255.0 million), representing 48.2%, 60.1%, 55.0% and 59.1% 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 to 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 brokers in Hong Kong and the United States offer zero commission fees or similar policies to attract retail 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 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.

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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 securities lending businesses. In 2019, 2020, 2021 and six months ended June 30, 2022, our revenues from interest income derived from our margin financing and securities lending businesses amounted to HK\$258.9 million, HK\$571.8 million, HK\$2,118.0 million and HK\$948.8 million (US\$120.9 million), representing 24.4%, 17.3%, 29.8% and 28.0% of our total revenues during the same periods, respectively. For the same periods, our interest income derived from bank deposits were HK\$187.2 million, HK\$208.6 million, HK\$197.4 million and HK\$196.8 million (US\$25.1 million), representing 17.6%, 6.3%, 2.8% and 5.8% of our total revenues during the same periods, 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 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 “Financial Information — Disclosure about Financial Risk — Interest Rate Risk.”

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, primarily arising from loans and advances, and receivables. 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. Our loans and advances increased from HK\$4.2 billion as of December 31, 2019 to HK\$18.8 billion as of December 31, 2020, further increased to HK\$29.6 billion and HK\$28.8 billion (US\$3.7 billion) as of December 31, 2021 and June 30, 2022, respectively. As our margin financing business expands, we may be subject to greater credit risks.

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

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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. As we incurred losses from and experienced disputes arising out of margin financing historically, we cannot assure you that we will not be exposed to any credit risks associated with our margin financing and securities lending businesses and we may continue to experience disputes with our clients after we make the margin calls. In particular, we may not always be able to fully recover the margin value through margin calls and our exposure to credit loss may be exacerbated during periods of high market volatility. In certain periods, the securities pledged by our clients may be concentrated on a limited number of securities which may result in a concentration of our credit exposures to such securities. In the event we need to liquidate a large amount of certain pledged securities, it may put a further downward pressure on the price of such securities and we may not be able to fully recover the margin value.

In addition, with regard to receivables, there is no assurance that all our counter-parties will meet their payment obligations on time, in full or at all. As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of our Group's receivables amounted to approximately HK\$1,794.3 million, HK\$8,077.0 million, HK\$10,447.8 million and HK\$9,689.6 million (US\$1,234.8 million), respectively. If we fail to adequately manage our credit risks and significant amounts due to us are not settled on time, our performance, liquidity and results of operations and financial conditions will be adversely affected. See “— Risks Related to Our Business and Industry — 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 through our platform. We provided margin financing service and/or securities lending services for securities listed on the Hong Kong Stock Exchange, the major stock exchanges in the U.S. and the Singapore Exchange. As of June 30, 2022, our outstanding margin financing and securities lending balance was HK\$28.9 billion (US\$3.7 billion). 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 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 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 partners find the risk-adjusted returns with us less attractive, we may not be able to obtain the requisite

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level of funding at reasonable costs, or at all. If we are 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.

The wealth management products that we distribute involve various risks and failure to identify or fully appreciate such risks may negatively affect our reputation, client relationships, results of operations and financial conditions.

We offer our clients access to money market, fixed income, equity, balanced, private funds as well as bonds, catering to the different investment targets and risk preferences of our clients. These products often have complex structures and involve various risks, including default risks, interest risks, liquidity risks, market risks, counterparty risks, fraud risks and other risks. In addition, we are subject to regulations in relation to wealth management products distributed in different jurisdictions, and there is no assurance that our operations will be deemed as being in full compliance with such regulations at all times.

Our success in distributing our wealth management products and distribution services depends, in part, on our ability to successfully identify the risks associated with such products and services, and failure to identify or fully appreciate such risks may negatively affect our reputation, client relationships, results of operations and financial conditions. Although we do not guarantee the principal or the return of the wealth management products available through our platform and do not bear any liabilities for any loss to capital invested in the products, we must be cautious of the selection of the financial products we offer and must accurately describe the risks associated with those products for our clients. Although we enforce and implement strict risk management policies and procedures, such risk management policies and procedures may not be fully effective in mitigating the risk exposure for all of our clients in all market environments or covering all types of risks. If we fail to identify and fully appreciate the risks associated with the financial products we offer, or fail to disclose such risks to our clients, or if our clients suffer financial losses or other damages resulting from the financial products we offer, our reputation, client relationships, results of operations and financial conditions will be materially and adversely affected.

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 partially 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 tools and functions, including the wealth management product distribution service we launched in August 2019, and we may continue to expand our new

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service offerings in the future. In addition, we also provide certain services to corporate clients. 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. Initial timetables for the introduction and development of new service offerings may not be achieved and profitability targets may not prove feasible. External factors, such as compliance with regulations, competition and shifting market preferences, may also impact the successful implementation of our new service offerings. Our personnel and technology systems may fail to adapt to the changes in such new areas or we may fail to effectively integrate new services into our existing operations. We may lack experience in managing our new service offerings. In addition, we may be unable to proceed our operations as planned or compete effectively due to different competitive landscapes in these new areas. Even if we expand our businesses into new jurisdictions or areas, the expansion may not yield intended profitable results. Furthermore, any new service offerings could have a significant impact on the effectiveness of our internal control system. Failure to successfully manage these risks in the development and implementation of new service offerings could have a material adverse effect on our business, results of operations and financial condition.

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.

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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 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 failures in our information technology systems could have a material adverse effect on our business, financial condition and results of operations.

Our information technology systems support substantially all phases of our operations and are an essential part of our technology infrastructure. If our systems fail to perform, we could experience disruptions in operations, slower response time or decreased customer satisfaction. We must process, record and monitor a large number of transactions and our operations are highly dependent on the integrity of our technology systems and our ability to make timely enhancements and additions to our systems. System interruptions, errors or downtime can result from a variety of causes, including unexpected interruptions to the internet infrastructure, technological failures, changes to our systems, erroneous or corrupted data, changes in customer usage patterns, linkages with third-party systems and power failures. Our systems are also vulnerable to disruptions from human error, execution errors, errors in models such as those used for risk management and compliance, employee misconduct, unauthorized trading, external fraud, computer viruses, distributed denial of service attacks, computer viruses or cyberattacks, terrorist attacks, natural disaster, power outage, capacity constraints, software flaws, events impacting our key business partners and vendors, and other similar events.

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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;
- physical or cyber based attacks on our servers and other network infrastructure, which may result in disruptions to our network and damages to our technology infrastructure;
- 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.

In addition, any network interruptions or inadequacy on the part of our third-party partners may result in disruptions to the services we provide to our users and clients. For example, there have been occasions where some of our clients were not able to timely execute trades because of poor or delayed performances of software, infrastructure or systems of our third party partners, which may be exacerbated by sudden increase in trading or other user activity volume. We also experienced system shutdown in the past. Such disruptions and other interruptions in the availability of our services 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 through our platform. See “— Risks Related to Our Business and Industry — Failure or poor performance of third-party software, infrastructure or systems on which we rely could adversely affect our business.” 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. 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. In addition, it could take an extended period of time to restore full functionality to our technology or other operating systems in the event of an unforeseen occurrence, which could affect our ability to process and settle client transactions. Despite our efforts to identify areas of risk, oversee operational areas involving risks, and implement policies and procedures designed to manage these risks, there can be no assurance that we will not suffer unexpected losses, reputational damage or regulatory actions due to technology or other operational failures or errors, including those of our vendors or other third parties.

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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 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. In addition, as we work with third parties to execute trading orders for U.S., Singapore and Australia stocks, our ability to successfully and timely execute these trades for our clients depends on the performance of third parties systems, failure of which may result in potential losses for our clients, which in turn may result in potential claims or litigations brought against us and adversely affect our business and reputation. In addition, 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.

We rely on a number of external service providers for certain key market information and data, technology, processing and supporting functions. Any disruptions with the provision of their services may affect our ability to deliver products and services, maintain normal business operations and as a result, affect our results of operations and financial condition materially and adversely.

We rely on a number of external service providers for certain key market information and data, technology, processing and supporting functions. Furthermore, external content providers provide us with financial information, market news, charts, futures and stock quotes and other fundamental data that we offer to our clients and users. These service providers face technical, operational and security risks of their own. Any significant failures by them, including improper use or disclosure of our confidential client, employee or company information, could interrupt our business, cause us to incur losses and harm our reputation. Particularly, we have contracted with affiliates of Nasdaq, Hong Kong Exchange and Clearing Limited and Singapore Exchange and a few other institutions to allow our clients to access real-time market

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information data, which are essential for our clients to make their investment decisions and take actions. If the data provided by such information providers were inaccurate or incomplete, or if such information providers fail to update or deliver the data in a timely manner as provided in the agreements, our clients may suffer losses and our business operations and reputation can be materially and adversely affected.

We cannot assure you that the external service providers will be able to continue to provide these services to meet our current needs in an efficient and cost-effective manner, or that they will be able to adequately expand their services to meet our needs in the future. The external service providers' ability to consistently provide these services is subject to risks from unfavorable political, economic, legal or other developments, such as social or political instability, changes in governmental policies or changes in the applicable laws and regulations.

An interruption in or the cessation of service by any external service provider as a result of system failures, capacity constraints, financial constraints or problems, unanticipated trading market closures or for any other reason and our inability to make alternative arrangements in a smooth and timely manner, if at all, could have a material adverse effect on our business, results of operations and financial condition.

Further, disputes might arise out of or in connection with the agreements regarding our or the service providers' performance of the obligations thereunder. To the extent that any service provider disagrees with us on the quality of the products or services, terms and conditions of the payment or other provisions of such agreements, we may face claims, disputes, litigations or other proceedings initiated by such service provider against us. We may incur substantial expenses and require significant attention of management in defending against these claims, regardless of their merit. We could also face damages to our reputation as a result of such claims, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

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 mobile applications 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.

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We have not obtained licenses from relevant PRC regulatory authorities in connection with some of the information and services available on our platform. Future change in regulations and rules may impose additional requirements or restrictions 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 “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Securities Business — 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 post videos for investor education purpose and allow certain of our users to upload and share videos on our platforms through *NiuNiu Community*. According to the Administrative Provisions on Internet Audio-Video Program Services (《互聯網視聽節目服務管理規定》), the provider of audio-video service, is required to obtain the Audio and Video Service Permission. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Internet Service — Regulation on Internet Audio-Visual Program Services.” It is not eligible for us to do so because current PRC laws and regulations require an applicant for the Audio and Video Service Permission to be a wholly state-owned or state-controlled entity. 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 regulatory measures from the National Radio and Television Administration (國家廣播電視總局) as of the Latest Practicable Date. During the Track Record Period, the revenue generated from relevant internet audio-video program services was less than 0.01% of our total revenue per year and the absence of such licence did not have any material adverse impact on our business and operations. 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.

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Furthermore, PRC regulations require platforms that disseminate internet news and information services to obtain the License for Internet News Information Services. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Internet Service — Regulation on Internet News Dissemination.” According to the Provisions for the Administration of Internet News Information Services, various qualifications and requirements which service providers shall meet have been provided in this regulation, for example, it shall be staffed by full-time news editors, content reviewers and technical support engineers who are suitable for its services and there are venues, facilities and capital that are appropriate for its services. The Implementation Rules for the Administration of the Licensing for Internet-based News Information Services 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. Besides, foreign-invested enterprises are not allowed to establish any internet-based news information service entities. As none of our Group companies is a news agency and we may not be able to fulfill such requirements, therefore 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.

In August 2019, we officially launched our online wealth management product distribution service which gives our clients access to money market, fixed income and equity funds products from leading fund houses. According to the Securities Investment Funds Law (《證券投資基金法》), any entity that engages in the fund services, including but not limited to sales, investment consulting, information technology system services, shall register or file with the securities regulatory authority of the State Council. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Securities Business — Regulation on Fund Sales Business.” We do not hold any license or permit in the promotion of, sales of, purchase of or redemption of funds in Mainland China. We do not believe the business we are conducting now through our subsidiaries or Consolidated Affiliated Entities in China should be deemed as fund services in China. However, we cannot assure you that relevant regulatory will take the same view as ours. If certain of our activities in China were deemed by relevant regulators as provision of fund services in China, we may be subject to penalties including imposition of fines and suspend of such fund sales business.

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.

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In addition, as we do not provide cross-border currency conversion services related to Renminbi to Chinese residents or institutions, 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, since the PRC authorities and the commercial banks designated by the SAFE to conduct foreign exchange services have significant amount of discretion in interpreting, implementing and enforcing the relevant foreign exchange rules and regulations, and for many other factors that are beyond our control, we may be subject to further regulatory requirements, including but not limited to verifying evidence of approval from relevant authorities with respect to foreign currency exchange.

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;
- conducting unauthorized activities such as assisting with currency conversion by Chinese investors; 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. If any sanction was imposed against an employee during his employment with us, even for matters unrelated to us, and his ability to perform certain regulated functions at his current employment with us was temporary 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.

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Any future change in the regulatory and legal regime for the securities brokerage and wealth management industries regions where we operate may have a significant impact on our business model. Potential enforcement actions against industry peers could lead to new rules or requirements and may subject us to higher regulatory scrutiny. If we are deemed to have been engaged in any misleading digital engagement practices or trading practices, there could be material adverse effect to our business operations, reputation and prospects.

Firms in the securities brokerage and wealth management industries have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have also increased. This regulatory and enforcement environment has created uncertainties with respect to various types of products and services that historically had been offered by us and that were generally believed to be permissible and appropriate. For example, the U.S. securities regulators are currently conducting an industry-wide review of the marketing and other business practices of online and app-based broker-dealers, and have also pursued a number of enforcement actions against firms in our industry, including one which resulted in the imposition of substantial monetary sanctions on a leading app-based broker-dealer headquartered in California in the United States. The regulatory scrutiny appears to focus on certain digital engagement practices utilized by on-line and app-based broker-dealers, the adequacy of risk disclosures to retail customers, and whether or not payment for order flow compromises a broker-dealer's obligation to obtain best execution for its customers. While our entities in the United States do not pay for order flow, certain of our user engagement practices in the United States, such as offering prizes (of nominal value) and badges (of no economic value) for trading activity, and related disclosures could be impacted by the current regulatory scrutiny. In this regard, the Chairman of the SEC has indicated a concern that certain digital engagement practices may encourage investors to trade more often than might be appropriate, and has questioned whether this creates a conflict of interest between the broker-dealers and their customers. The current regulatory review is at the stage of information gathering and the SEC has not publicly concluded that any of the digital engagement practices such as those that we use are illegal or improper. However, there can be no assurance that the SEC will not adopt new rules or guidance that may adversely impact our digital engagement practices, business and operating results.

In a separate matter, the State of Massachusetts has sued a leading app-based broker-dealer headquartered in California alleging, among other things, that certain of their customer communications constitute a form of recommendation, thereby triggering a duty of the broker-dealer to act in the best interest of its customers. This case is currently pending. Moomoo Financial Inc.'s business strategy is based on providing a trading platform without making investment recommendations or providing investment advice. An expansion of the definition of what constitutes an investment recommendation could have a material impact on Moomoo Financial Inc.'s business operation. The pending study and enforcement actions against other firms in our industry and relevant negative news coverage and perception could lead to new rules or requirements that could have a material adverse effect upon our business operations, and may subject us to higher regulatory scrutiny in the United States. If we are deemed to have been engaged in any misleading digital engagement practices or trading

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practices, there could be material adverse effect to our business operations, reputation and prospects. Legislative changes in rules promulgated by government agencies and self-regulatory organizations in various jurisdictions that oversee our businesses and changes in the interpretation or enforcement of existing laws and rules, such as the potential imposition of transaction taxes, may directly affect our model of operation and profitability.

We have granted options and restricted shares, and may continue to grant awards under our share option plans, which may result in increased share-based compensation expenses. Such share-based compensation may have an adverse effect on our results of operations and dilute the shareholdings of our existing shareholders.

We adopted the Share Incentive Plans for the purpose of granting share-based compensation awards to employees, Directors and consultants to incentivize their performance and align their interests with ours. Under our Share Incentive Plans, we are authorized to grant options, restricted shares and restricted share units (“RSU”). We granted options and RSUs with service condition only to employees. Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method.

For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2022, the Group granted nil, 6,067,400, 12,105,712, and 48,000 restricted shares to employees pursuant to the 2019 Share Incentive Plan, respectively. For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2022, the Group granted 9,791,200, 2,489,832, 1,080,000, and nil stock options to employees pursuant to the 2014 Share Incentive Plan and 2019 Share Incentive Plan. Options exercised for the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2022 were 106,295,232, 5,048,824, 5,875,592, and 1,197,536, respectively. We incurred share-based compensation expenses of HK\$16.0 million, HK\$32.6 million, HK\$98.9 million, and HK\$97.3 million (US\$12.4 million) in 2019, 2020, 2021, and the first six months of 2022, respectively. We believe the share-based compensation is an effective incentive to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations and dilute the shareholdings of our existing shareholders.

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If there is any negative publicity with respect to us, including our business model and practices, our industry peers or our industries in general, the trading price of our Class A Ordinary Shares and/or ADSs may be volatile and 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 individuals or enterprises that are current or potential users and clients. Our reputation and brand are vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Our reputation and brand have been and may in the future be, negatively affected by a number of factors, including, among others, regulatory developments, inquiries or investigations, lawsuits initiated by clients or other third parties, employee misconduct, perceptions of conflicts of interest and rumors, unfavorable statements made by media outlets, research firms or government officials. Furthermore, despite our efforts to address negative publicity and correct misinformation about our business model and practices, our reputation and brand may continue to be harmed by such negative publicity and misinformation, and our Class A Ordinary Shares and/or ADSs may experience substantial price volatility as a result. 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.

Policy change relating to investable assets could have an adverse impact on our addressable market.

One of the key drivers for the growth of global online securities market is the investable assets of retail investors. If the regulatory authorities of the relevant jurisdictions governing investable assets of retail investors impose new or amended laws and regulations with respect to these assets, for example, certain control on the funds flow or restricted use of the assets by the investors, the size of investable assets readily available for the online securities market may be significantly reduced, which will result in slow down of the growth of our total addressable market and may subsequently adversely affect our business development and expansion.

In particular, the change of the regulations in the jurisdictions where we have presence may affect the trading activities of our clients, which may significantly reduce the trading volume facilitated by our platform. As our revenues from brokerage commission income depends heavily on the total trading volume facilitated by 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.

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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, insider trading, anti-money laundering and other anti-fraud rules and mechanisms on our platform. Nevertheless, we remain subject to the risk of fraudulent or illegal 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 facilitated by our platform and therefore harm our operating and financial results. For example, the SFC has in the past issued restriction notices to us to prohibit order placing in certain client accounts linked to suspected market misconduct. Any misconduct of or violation by our clients of applicable laws and regulations could lead to regulatory inquiries and investigations that involve us, which may affect our business operation and prospects. 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 “— Risks Related to Our Business and Industry — Employee misconduct could expose us to

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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.

We face risks related to our “know-your-client” procedures when our clients provide outdated, inaccurate, false or misleading information. We may be subject to certain legal or regulatory inquiry, investigation or sanctions, fines or penalties, financial loss, or damage to reputation and brand resulting from such violations.

We collect personal information during the account opening process and screen accounts against databases for purposes of verifying client identity and detecting risks. Although we require our clients to submit documents for proof of their identity and address for completing the account registration and to update such information from time to time, we face risks as the information provided by our clients may be outdated, inaccurate, false or misleading. Despite the fact that we have appropriate ongoing monitoring procedures in place to keep customer information up to date pursuant to applicable regulatory requirements, we cannot fully verify the accuracy, currency and completeness of such information beyond reasonable effort. For example, certain of our clients are holders of the PRC identity cards. As the PRC identity cards are usually effective for more than ten years or some may have no expiration term, some clients may have changed their domicile or citizenship during the terms of their PRC identity cards and therefore be subject to applicable laws and regulations of jurisdictions other than the PRC. In this situation, our provision of products and services to such clients could be in violation of the applicable laws and regulations in the jurisdictions where those clients reside, of which we may have no awareness until we are warned by the relevant supervising authorities. We could still be subject to certain legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from such violations.

Our platform and internal systems rely on software and technological infrastructure that are 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.

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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 the liquidity requirements, 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.

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

We derive interest income from depositing clients' uninvested cash balances in accounts opened with our bank partners. In 2019, 2020, 2021 and six months ended June 30, 2022, we generated HK\$187.2 million, HK\$208.6 million, HK\$197.4 million and HK\$196.8 million (US\$25.1 million) in 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 (for example as a result of using cash to purchase mutual funds through our platform), or a transfer of cash out of their accounts opened through our platform could reduce our interest income and negatively impact our financial results.

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Our clearing operations expose us to liability for errors in clearing functions, which may adversely affect our business operations and financial conditions.

Our SFC-licensed subsidiary, Futu International Hong Kong, provides clearing and execution services for our online brokerage business involving securities listed on the Hong Kong Stock Exchange or qualified under the Hong Kong, Shanghai and Shenzhen Stock Connect and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. Our U.S. subsidiary, Futu Clearing Inc., has been approved to provide clearing and settlement services for securities transactions in the U.S. financial markets. 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 system and organizations, such as CCASS and the Depository Trust Clearing Corporation and its subsidiaries in the United States, in settling client securities transactions. Clearing brokers are also responsible for protecting client assets and complying with relevant customer protecting regulations. Clearing securities firms, such as Futu International Hong Kong and Futu Clearing Inc., are subject to substantially more regulatory oversight 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 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 and key employees 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, legal and compliance, 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.

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.

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

We believe that trademarks, trade secrets, patents, copyright and other intellectual property we use are critical to our business. We rely on a combination of trademark, patent, copyright and trade secret protection laws, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. Despite our efforts to protect our intellectual property rights, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property rights by competitors, former employees or other third parties. We have filed, and may in the future file, intellectual property applications on certain of our innovations. We cannot guarantee that any of our present or future patents or other intellectual property rights will not lapse or be invalidated, circumvented, challenged, or abandoned. Litigation or proceedings before governmental authorities, administrative and judicial bodies may be necessary in the future to enforce our intellectual property rights and to determine the validity and scope of our rights. As a result, we may not be able to adequately protect our intellectual property rights, which could adversely affect our revenues and competitive position. 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.

In addition, while we typically require our employees who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. In addition, such agreements may be breached. Accordingly, we may be forced to bring claims against third parties, or defend claims that they may bring against us related to the ownership of such intellectual property.

Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend intellectual property or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention. The experience and capabilities of China courts in handling intellectual property litigation varies and outcomes are unpredictable.

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

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trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. In addition, we use third-party licensed software for our business and on our platform. Nevertheless, 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, 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, Singapore, the United States, Australia 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 MIIT 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 MPS 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 (《移動互聯網應用程序信息服務管理規定》) which was promulgated by the CAC and became effective in August 2022, providers of mobile apps shall be responsible for the demonstration of the contents of the information and shall not create, 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

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establish and improve procedures on content examination and administration. We must adopt measures such 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, which may affect our business operations and financial conditions.

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 subject to inquiries, inspections, investigations and proceedings by regulatory and other governmental agencies. See “— Risks Related to Our Business and Industry — We are subject to extensive and evolving regulatory requirements in the markets we operate in, 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 by relevant regulators.” See “Business — Legal Proceedings and Compliance — 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 defending against such actions 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

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legal proceedings are at an early stage. A significant judgment 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, and as a result, our business operations and financial conditions may be adversely affected.

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, business partners, 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 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

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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.

We may fail to realize profits from our short-term and long-term investments or lose some or all of the capital invested.

During the Track Record Period, we invested in certain short-term investments, including available-for-sale financial securities, money market funds, and financial assets at fair value through profit or loss. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our short-term investments amounted to HK\$93.8 million, nil, HK\$1,169.7 million and HK\$17.5 million (US\$2.2 million), respectively. See “Financial Information – Discussion of Certain Key Balance Sheet Items – Short-term investments”. Such investments are measured at fair value. A decline in the value of our available-for-sale securities could result in the recognition of impairment losses if management determines that such decline in value is not temporary or is substantial. This evaluation is a matter of judgment, which includes the assessment of several factors. If our management determines that an asset is impaired, the book value of the asset is adjusted and a corresponding loss is recognized in earnings for the current period. The deterioration in the market value of such short-term investments could result in the recognition of impairment loss or fair value loss.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our long-term investments amounted to HK\$6.2 million, nil, HK\$23.4 million and HK\$249.6 million (US\$31.8 million), respectively. With respect of long-term investments, our investment committee is authorized and empowered the investment committee to invest our funds in one or more entities by purchase of equity or debt interests or assets, acquisition, merger, consolidation, capital commitment or otherwise, in relation to certain material long-term investments. We have limited control over the portfolio companies or funds in which we have invested. We are subject to the risk that our portfolio companies or funds may make business, financial or management decisions with which we do not agree or that the majority shareholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. Furthermore, our portfolio companies may fail to abide by their agreements with us, for which we have limited or no recourse. If any of the foregoing were to occur, the value of our long-term investments could decrease or we may face investment failure, in which case our financial condition, results of operations and cash flow could be adversely affected.

Increases in labor costs and enforcement of stricter labor laws and regulations may adversely affect our business and results of operations.

The economy in the countries and regions that we operate in has experienced increases in inflation and labor costs in recent years. As a result, average wages are expected to continue to increase. In addition, we are required by the local laws and regulations to make the required contributions for various statutory employee benefits, such as pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies and designated pension trustees, and take out employees’

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compensation insurance policies for the benefit and protection of our employees, to the extent required under applicable local laws. The relevant government agencies may examine whether an employer has paid the required contributions or has in place adequate insurance coverage in relation to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines, imprisonment 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.

If we fail to maintain an effective system of internal controls, we may be unable to accurately or timely report our results of operations or prevent fraud, and investor confidence and the market price of the Class A Ordinary Shares and/or ADSs may be materially and adversely affected.

Since our initial public offering, we have become subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act (“**Section 404**”), requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, as we have ceased to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Historically, we and our independent registered accounting firm identified one material weakness relating to our lack of sufficient and competent accounting and financial reporting personnel with appropriate knowledge of U.S. GAAP to design and implement robust period-end financial reporting policies and procedures for the preparation of consolidated financial statements and related disclosures in accordance with U.S. GAAP and the financial reporting requirements set forth by the SEC, as latest as in the course of auditing our consolidated financial statements for the year ended December 31, 2019. As of December 31, 2020, based on our management’s assessment, we have implemented a number of measures and accordingly determined that the material weakness in our internal controls had been remediated. However, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. If we fail to achieve and maintain an effective internal control environment, 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 in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our Class A Ordinary Shares or ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory

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investigations and civil or criminal sanctions. We may also be required to restate our financial statements for prior periods. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements.

Increasing focus with respect to environmental, social and governance matters may impose additional costs on us or expose us to additional risks. Failure to comply with the laws and regulations on environmental, social and governance matters may subject us to penalties and adversely affect our business, financial condition and results of operations.

Relevant regulatory authorities and public advocacy groups have been increasingly focused on environment, social and governance, or ESG, issues in recent years, making our business more sensitive to ESG issues and changes in governmental policies and laws and regulations associated with environment protection and other ESG-related matters. Investor advocacy groups, certain institutional investors, investment funds, and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. Regardless of the industry, increased focus from investors and the relevant regulatory authorities on ESG and similar matters may hinder access to capital, as investors may decide to reallocate capital or to not commit capital as a result of their assessment of a company's ESG practices. Any ESG concern or issue could increase our regulatory compliance costs. If we do not adapt to or comply with the evolving expectations and standards on ESG matters from investors and the relevant regulatory authorities or are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition, and the price of our Class A Ordinary Share and/or ADSs could be materially and adversely effected.

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

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. 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. 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 appreciation or depreciation of Renminbi may materially and adversely affect our costs, expenses and financial position, and the value of, and any dividends payable on, our Class A Ordinary Shares or ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollar would have an adverse effect on the RMB

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amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our Class A Ordinary Shares or ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. In 2021, we purchased derivatives in an effort to reduce our exposure to foreign currency exchange risk due to exchange rate fluctuations between Hong Kong dollars and Renminbi. However, the 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. We have expanded our operations into the United States Singapore and Australia and may expand further into other international markets. 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;
- 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;

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- 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. For example, as a result of our expansion into the United States, Singapore and Australia, we are subject to the US Brokerage Regulations and the Singapore Brokerage Regulations, and regulated by the Australian Securities and Investments Commission, respectively. For securities including stocks, options and futures traded on the major exchanges in the U.S., the Singapore Exchange and the Australian Securities Exchange, we aggregate trade instructions from clients and collaborate with qualified local third-party clearing brokers for execution and settlement. In the case of securities traded on the major U.S. stock exchanges, we also execute and settle some of the transactions through our clearing system platform. From our client's perspective, the trading process is seamless as we handle all client communications and touchpoints, including delivery and receipt of funds under both scenarios. Our wholly-owned subsidiary, Moomoo Financial Inc., is registered with the SEC as a broker-dealer and is a member in good standing of FINRA. Another wholly-owned subsidiary of ours, Futu Clearing Inc., is also a member in good standing of FINRA and Depository Trust & Clearing Corporation ("DTCC"), with capacity to provide clearing services in the U.S. As we continue to expand our business in the United States, we will be subject to the rules and regulations imposed by the SEC, FINRA and other regulatory authorities. In Singapore, our wholly-owned subsidiary, Moomoo Financial Singapore is registered with the MAS as a Capital Markets Services Licence holder, and is subject to the Singapore Brokerage Regulations, as well as any rules and regulations imposed by the MAS. In November 2021, we acquired 100% of the issued share capital of an Australian company and renamed it Futu Securities (Australia) Ltd, which has since become our wholly-owned subsidiary. Futu Securities (Australia) Ltd holds an Australian Financial Services License (AFSL), a license granted and regulated by the Australian Securities and Investments Commission (ASIC). 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

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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, Singapore, the U.S., Australia and other relevant jurisdictions. These laws and regulations require financial institutions to establish sound internal control policies and procedures to guard against money laundering and terrorist financing. 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. In addition, we are required to train our personnel and periodically test the adequacy of our policies and procedures.

We have implemented various policies and procedures in compliance with all applicable anti-money laundering and counter-terrorist financing laws and regulations, including internal controls and KYC procedures, for preventing money laundering and terrorist financing. In addition, our institutional partners in Hong Kong, Singapore, the United States and Australia have their own appropriate anti-money laundering policies and procedures with respect to 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 relevant regulators. We have adopted commercially reasonable procedures for monitoring our institutional 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 detecting suspicious activity and 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 our 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,

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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 the markets we operate in, 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 by relevant regulators.”

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. Therefore, we are subject to the Competition Ordinance generally. 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 (i.e. the “**First Conduct Rule**”); 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 (i.e. the “**Second Conduct Rule**”). Various factors may be taken into consideration in determining whether an undertaking has a substantial degree of market power, including the market share of the undertaking; the undertaking’s power to make pricing and other decisions; any barriers to entry to competitors into the relevant market; and the relevant matters specified in the guidelines issued under section 35 of the Competition Ordinance, including the Guideline of the Second Conduct Rule jointly issued by the Competition Commission and the Communications Authority.

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.

As we are the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange as of December 31, 2021 according to CIC, such factor may be taken into account in assessing whether we have a substantial degree of market power in Hong Kong. As there is no precedent of successful enforcement of the Second Conduct Rule in Hong Kong, uncertainties exist in respect of the rule’s application. We are not currently subject to any investigations, inquiries or penalties in respect of breaches under the Competition Ordinance. We may nevertheless 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, claims for damages 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.

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We have limited business insurance coverage, which may be inadequate to protect us from the liabilities or losses we may incur.

We currently carry limited insurance in connection with our online brokerage business. 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 applicable rules, our business operations and performance will be adversely affected.

We anticipate that the net proceeds we received from our securities 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 following the Listing. 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. Our broker-dealer and insurance-broker subsidiaries, Futu International Hong Kong, Moomoo Financial Inc., Futu Clearing Inc., Moomoo Financial Singapore, Futu Insurance Brokers (Hong Kong) Limited and Futu Australia are subject to capital requirements determined by their respective regulators. If we fail to maintain the required level of liquid capital, the SFC, the SEC, the MAS or the ASIC may take actions against us and our business will be adversely affected.

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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 well as other parts of the world 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 a reliable source 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 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.

Legal defects regarding some of our leased properties may adversely affect our business, financial condition and results of operations.

As of the Latest Practicable Date, we entered into 15 lease agreements for our leased properties in the PRC and eight of them had not been registered and filed with the competent PRC government authorities as required by applicable PRC laws and regulations. We cannot assure you that the lessors will cooperate and complete the registration in a timely manner. Our PRC Legal Advisors has advised us that failure to complete the registration and filing of lease agreements will not affect the validity of such leases or impede our use of the relevant properties but could result in the imposition of fines up to RMB10,000 for each leased property

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that is unregistered if we fail to rectify the noncompliance within the time frame prescribed by the relevant authorities. As of the Latest Practicable Date, we were not aware of any notice or allegation of penalty from PRC government authorities for our failure on the registration of lease agreements.

Further, as of the Latest Practicable Date, the lessors of seven of our leased properties failed to provide us with valid property ownership certificates or authorization documents evidencing their rights to lease the properties, and our leased property interests under such properties may be defective. If such lessors do not have the relevant property ownership certificates, the relevant rightful title holders or other third parties may challenge our use of such leased properties, and we may be forced to vacate these properties and be required to seek alternative properties for lease. As of the Latest Practicable Date, we were not aware of any challenge made by a third party or competent government authority on the titles of any of these leased properties that might affect our current occupation.

RISKS RELATED TO OUR PRESENCE IN CHINA

Changes in social conditions, 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 results of operations, financial condition and prospects are influenced by social, economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the framework and style of government supervision, level of development, growth rate, 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. The PRC government also exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is reported to be severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

The new, stricter regulations or interpretations of existing regulations imposed by the central or local governments may require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations, and if relevant regulations are

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issued and become effective in a short notice, we may not be able to take the required actions in a timely manner without allocating significant resources. See also “— Risks Related to Our Business and Industry — If we fail to protect our platform or the information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-in, breaches by third parties 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.”

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

A part of our operations is conducted in the PRC and is governed by PRC laws, rules and regulations. Our PRC subsidiaries and Consolidated Affiliates Entities are subject to laws, rules and regulations applicable to foreign investment in China. Some of our activities outside the PRC are also subject to the extra-territorial jurisdiction under the relevant PRC laws and regulations. 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.

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In addition, the PRC government has significant oversight and discretion over the conduct of our operations and may intervene or influence our operations as the government deems appropriate to further regulatory, political and social goals. The PRC government has recently published new policies that significantly affected certain industries such as the internet industries, and we cannot rule out the possibility that it will in the future release further regulations or policies or take regulatory actions regarding our industry that could adversely affect our business, financial condition and results of operations. Furthermore, the PRC government has recently indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted overseas and foreign investment in companies like us. See “Risk Factors — Risks related to our presence in China — The approval of the CSRC or other PRC government authorities may be required in connection with the Listing under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.” Any such action, once taken by the PRC government, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or in extreme cases, become worthless.

The trade war between the U.S. and China, and on a larger scale internationally, may dampen growth in China and other markets where the majority of our clients reside, and our activities and results of operations may be negatively impacted.

In the past few years, the United States imposed additional import tariffs on specified products imported from China. As a result, China has responded by imposing retaliatory tariffs on goods exported from the United States. Although we are not subject to any of those tariff measures, the proposed tariffs may adversely affect the economic growth in China and other markets as well as the financial condition of our clients. With the potential decrease in the spending powers of our target clients, we cannot guarantee that there will be no negative impact on our operations. In addition, the current and future actions or escalations by either the U.S. or China that affect trade relations may cause global economic turmoil and potentially have a negative impact on our business, financial condition and results of operations, and we cannot provide any assurance as to whether such actions will occur or the form that they may take.

Uncertainties exist with respect to the enforcement of Anti-Monopoly Guidelines for Internet Platforms and how it may impact our business operations.

According to Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》) (released on August 30, 2007, last amended on June 24, 2022 and then effective from August 1, 2022), business operators holding dominant market positions shall not abuse such position to restrict trading counterparts to transact only with such business operators or only with designated business operators without a justifiable reason. Where a business operator has violated the Anti-monopoly Law of the PRC by abusing its dominant market position, the anti-monopoly enforcement agency shall order the business operator to stop the illegal act and confiscate the illegal income; a fine of 1% to 10% of the business operator’s revenue from the preceding year shall be imposed.

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In February 2021, the Anti-monopoly Commission of the State Council (國務院反壟斷委員會) promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platforms (《關於平台經濟領域的反壟斷指南》), or the Anti-Monopoly Guidelines for Internet Platforms. The Anti-Monopoly Guidelines for Internet Platforms is consistent with the Anti-Monopoly Law and prohibits monopoly agreements, abuse of a dominant position and concentration of undertakings that may have the effect to eliminate or restrict competition in the field of platform economy. More specifically, the Anti-Monopoly Guidelines for Internet Platforms outlines certain practices that may, if without justifiable reasons, constitute abuse of a dominant position, including without limitation, tailored pricing using big data and analytics, actions or arrangements deemed as exclusivity arrangements, using technological means to block competitors' interface, using bundle services to sell services or products, and compulsory collection of user data. To determine the abuse of dominant market positions in the field of platform economy, relevant markets shall be firstly defined, and whether business operators have dominant positions in the relevant markets should be analysed, and then whether abuse of its dominant market positions is constituted shall be analysed specifically on a case-by-case basis. In addition, the Anti-Monopoly Guidelines for Internet Platforms expressly provides that concentration involving VIEs will also be subject to antitrust filing requirements.

On November 15, 2021, the SAMR published the Overseas Anti-monopoly Compliance Guidelines for Enterprises (《企業境外反壟斷合規指引》), which is aimed at helping PRC companies establish and strengthen overseas anti-monopoly compliance systems to reduce overseas anti-monopoly compliance risks.

As the forementioned guidelines were newly promulgated, uncertainties exist with respect to their enforcement. Although we believe we do not engage in any of the foregoing situations, we cannot assure you that the regulators will take the same view as ours. If certain of our activities in China were deemed by relevant regulators as violation of the Anti-Monopoly Guidelines for Internet Platforms, it may result in governmental investigations, fines and/or other sanctions against us. Furthermore, the amended Anti-monopoly Law increases the fines for illegal concentration of business operators to no more than ten percent of its last year's sales revenue if the concentration of business operators has or may have an effect of excluding or limiting competitions, or a fine of up to RMB5 million if the concentration of business operators does not have an effect of excluding or limiting competition. Pursuant to the amended Anti-monopoly Law, the relevant authorities shall investigate a transaction where there is any evidence that the concentration has or may have the effect of eliminating or restricting competitions, even if such concentration does not reach the filing threshold. As of the Latest Practicable Date, we had not been subject to any administrative penalties, regulatory actions or inquiries in connection with anti-monopoly.

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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 or otherwise 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 (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**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 certain direct or indirect offshore investment activities. See “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Foreign Exchange — 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.

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, (“**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 (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**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. Prior to our listing on the Nasdaq Global Market, 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

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subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to increase their registered capitals or 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 resident 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 (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or the Stock Option Rules. 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 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 are subject to the Stock Option Rules since our Company becomes an overseas listed company, and we currently withhold income tax from our PRC resident employees in connection with their exercise of options. If we or our PRC resident participants fail to comply with these regulations, or if our PRC resident participants fail to pay or we fail to withhold their income taxes according to relevant laws, rules and regulations, we

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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 “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Foreign Exchange — Regulations on Employee Share Incentive Plans of Overseas Publicly-Listed Company.”

In addition, on October 12, 2021, the SAT has issued the Notice of the State Administration of Taxation on Several Measures for Deepening the Reform of “Streamlining Administration, Instituting Decentralization, Improving Regulation and Optimizing Services” in the Taxation Field to Cultivate and Stimulate the Vitality of Market Players (《國家稅務總局關於進一步深化稅務領域“放管服”改革培育和激發市場主體活力若干措施的通知》), or the SAT Notice 69. The SAT Notice 69 requires domestic enterprises to report their share incentive plans to the tax authorities in charge, if they give the equities of relevant overseas enterprises to their employees. Under the SAT Notice 69, 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.

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 our securities offerings to make loans or additional capital contributions to our PRC subsidiaries and our Consolidated Affiliated Entities.

Futu Holdings Limited is an offshore holding company with a part of our operations conducted in China. We may make loans to our PRC subsidiaries and Consolidated Affiliated Entities 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 provided by us to our PRC subsidiaries and Consolidated Affiliated Entities are subject to PRC regulations and foreign exchange loan registrations. Such loans to any of our PRC subsidiaries and Consolidated Affiliated Entities cannot exceed a statutory limit and must be filed with SAFE through the online filing system of SAFE pursuant to the applicable PRC regulations. Any loan to be provided by us to our PRC subsidiaries and Consolidated Affiliated Entities with a term of one year or more must be recorded and registered with the National Development and Reform Commission. 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

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granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) constructing or 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 Consolidated Affiliated Entity 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 our securities offerings 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 (《中華人民共和國企業所得稅法》) 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. The Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of de facto management bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or the SAT Circular 82, issued by SAT on April 22, 2009, and amended on December 29, 2017, 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 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.

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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, 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. 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 uncertainties 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 non-PRC investors, or gains from the transfer of the ADSs

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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 (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**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 (《關於非居民企業所得稅源泉扣繳有關問題的公告》) (“**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 non-resident 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 or 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%. 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.

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We are subject to PRC restrictions on currency exchange.

Some of our expenses and a limited portion of our revenues 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 Consolidated Affiliated Entities. 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 our Class A Ordinary Shares or ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our subsidiaries and Consolidated Affiliated Entities.

In addition, as we do not provide cross-border currency conversion services related to Renminbi to our Chinese residents or institutions, 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, since the PRC authorities and the commercial banks designated by the SAFE to conduct foreign exchange services have significant amount of discretion in interpreting, implementing and enforcing the relevant foreign exchange rules and regulations, and for many other factors that are beyond our control, we may be subject to further regulatory requirements, including but not limited to implementing additional and burdensome measures to monitor the source and use of funds in foreign currency in the accounts of our clients, or verify evidence of approval from relevant authorities.

China’s M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations have established procedures and requirements that could make merger and acquisition activities in China by foreign investors more time consuming and complex. In addition to the Anti-monopoly Law itself, these include the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) the (“**M&A Rules**”), adopted by six PRC regulatory agencies in 2006 and amended in 2009, and the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors the (“**Security Review Rules**”) (《商務部實施外國投資者併購境內企業安全審查制度的規定》), promulgated in 2011. These laws and regulations impose

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requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, the Anti-Monopoly Law requires that the anti-monopoly enforcement agency be notified in advance of any concentration of undertaking if certain thresholds are triggered. On February 7, 2021, the Anti-Monopoly Committee of the State Council (國務院反壟斷委員會) published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》), which stipulates that any concentration of undertakings involving variable interest entities is subject to anti-monopoly review. Moreover, the Security Review Rules specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the Ministry of Commerce, and prohibit any attempt to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. On December 19, 2020, the NDRC and the Ministry of Commerce jointly issued the Measures for the Security Review for Foreign Investment (《外商投資安全審查辦法》), which took effect on January 18, 2021. These measures set forth the provisions concerning the security review mechanism on foreign investment, including, among others, the types of investments subject to review, and the review scopes and procedures. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from the Ministry of Commerce and other PRC government authorities, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The approval of the CSRC or other PRC government authorities may be required in connection with the Listing under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

The M&A Rules requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and the Listing may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and any failure to obtain or delay in obtaining the CSRC approval for the Listing would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

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Recently, the relevant PRC government authorities issued the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), or the Opinions, which called for the enhanced administration and supervision of overseas-listed China-based companies (中概股公司), proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, the exact scope of China-based companies had yet been promulgated, and there are still uncertainties regarding the interpretation and implementation of the Opinions, including on China-based companies with a VIE structure. In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the Opinions will not impose any additional requirement on us. If it is determined that we are subject to any CSRC approval, filing, other governmental authorisation or requirements for this Listing or future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for this Listing or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our ability to pay dividends outside of the PRC, limit our operating privileges in the PRC, delay or restrict future capital raising activities into the PRC, or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the proceeds of our shares.

On December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Draft Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Draft Filing Measures**”), both of which had a comment period that expired on January 23, 2022. The Draft Administrative Provisions and the Draft Filing Measures regulate the system, filing management and other related rules with respect to direct or indirect overseas issuance of listed and traded securities by “domestic enterprises.” Assuming the Draft Administration Regulations and the Draft Filing Measures become effective in their current forms, any of our offerings in the future may be subject to the filing with the CSRC. If we cannot complete such filing in a timely manner, our offerings may be materially effected.

On April 2, 2022, the CSRC released the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises (Drafts for Comments) (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定(徵求意見稿)》) (the “**Confidentiality and Archives Administration Provisions**”), which were open for public comments until April 17, 2022. The Confidentiality and Archives Administration Provisions require, among others, that PRC domestic enterprises that seek to offer and list securities in overseas markets, either directly or

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indirectly, to complete approval and filing procedures to competent authorities, if such PRC domestic enterprises or its overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of PRC government agencies to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting files or copies of important preservation value to the state and society shall be subject to corresponding procedures in accordance with relevant laws and regulations. As of the Latest Practicable Date, the Confidentiality and Archives Administration Provisions had been released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty. If the Confidentiality and Archives Administration Provisions become effective in its current form before the Listing is completed, we may be required to complete relevant approval or filing procedures, or expend additional resources to comply with the Confidentiality and Archives Administration Provisions if we are recognized to fall within any of the foregoing circumstances.

The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt the Listing or future capital raising activities before settlement and delivery hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for the Listing or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and future capital raising activities.

Discontinuation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries currently benefit from a number of preferential tax treatments. For example, Shenzhen Futu, is entitled to enjoy, a 15% preferential enterprise income tax from December 2020 as it has been qualified as a “High New Technology Enterprise” and an “Advanced Technology Service Enterprise” under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and related regulations. Shenzhen Futu as assessed and approved by the relevant government authorities as a Software Enterprise under the PRC Enterprise Income Tax Law and relevant regulations, was entitled to an exemption from enterprise income tax for the first two years, counting from the first year Shenzhen Futu has made a profit. Futu Network Technology (Shenzhen) Co., Ltd. (富途網絡科技(深圳)有限公司) is entitled to enjoy, a 15% preferential income tax from 2019 as it has been qualified as an “Advanced Technology Service Enterprise” under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and related regulations. The discontinuation of any of the

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preferential income tax treatment that we currently enjoy could have a material and adverse effect on our result of operations and financial condition. We cannot assure you that we will be able to maintain or lower our current effective tax rate in the future.

In addition, our PRC subsidiaries have received various financial subsidies from PRC local government authorities. The financial subsidies result from discretionary incentives and policies adopted by PRC local government authorities. Local governments may decide to change or discontinue such financial subsidies at any time. The discontinuation of such financial subsidies or imposition of any additional taxes could adversely affect our financial condition and results of operations.

We may not be able to obtain certain benefits under relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary.

Futu Holdings Limited is a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. Furthermore, the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Treaties (《非居民納稅人享受協定待遇管理辦法》), which became effective in January, 2020, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials with the tax authorities. In addition, based on the Notice on Issues concerning Beneficial Owner in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), or Circular 9, issued on February 3, 2018 by the SAT, which became effective from 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, including without limitation, whether the applicant is obligated to pay more than 50% of the applicant’s income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy 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. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See “Financial Information — Taxation — PRC.” As of June 30, 2022, the total retained earnings of our subsidiaries and Consolidated Affiliated Entities located in China accounted for a relatively small portion of our Group’s total retained earnings and we currently do not have any plan to make offshore distribution. We intend to re-invest all earnings, if any, generated from our PRC subsidiaries for the operation and expansion of our

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business in China. Our determination regarding our qualification to enjoy the preferential tax treatment could be challenged by the relevant tax authority and we may not be able to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the arrangement with respect to dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiary.

The audit report included in SEC filings had historically been prepared by an auditor who was not inspected by the Public Company Accounting Oversight Board and, as such, our investors have been deprived of the benefits of such inspection.

Our independent registered public accounting firm that issued the audit report included in SEC filings 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 (“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. Our auditor is located in China, a jurisdiction where the PCAOB was unable to conduct inspections and investigations before 2022. 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. We and investors in our securities are deprived of the benefits of such PCAOB inspections. On December 15, 2022, the PCAOB announced that it was able to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022. However, the inability of the PCAOB to conduct inspections of auditors in China in the past made it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that have been subject to the PCAOB inspections, which could cause investors and potential investors in our securities to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

The ADSs could be delisted from the Nasdaq Global Market and prohibited from trading “over the counter” if the Public Company Accounting Oversight Board is unable to inspect auditors located in China. The delisting of the ADSs from the Nasdaq Global Market and inability to trade, or the threat thereof, may materially and adversely affect the value of your investment.

On December 18, 2020, the Holding Foreign Companies Accountable Act (“HFCAA”), was enacted. Under the HFCAA, the SEC will prohibit our securities from being listed on U.S. securities exchanges or traded “over-the-counter” if we have filed audit reports issued by a foreign accounting firm that cannot be inspected by the PCAOB for three consecutive years, beginning in 2021 or any year thereafter.

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On December 2, 2021, the SEC adopted final amendments to its rules implementing the HFCAA, or the Final Amendments. The Final Amendments include requirements to disclose information, including the auditor name and location, the percentage of shares of the issuer owned by governmental entities, whether governmental entities in the applicable foreign jurisdiction with respect to the auditor has a controlling financial interest with respect to the issuer, the name of each official of the Chinese Communist Party who is a member of the board of the issuer, and whether the articles of incorporation of the issuer contains any charter of the Chinese Communist Party. The Final Amendments also establish procedures the SEC will follow in identifying issuers and prohibiting trading by certain issuers under the HFCAA. According to the Final Amendments, the SEC will identify a Commission-Identified Issuer if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on such issuer for three consecutive years. A Commission-Identified Issuer will be required to comply with the submission and disclosure requirements in the annual report for each year in which it was identified. If a registrant is identified as a Commission-Identified Issuer based on its annual report for the fiscal year ended December 31, 2021, the registrant will be required to comply with the submission or disclosure requirements in its annual report filing covering the fiscal year ended December 31, 2022. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in the Mainland China and Hong Kong, and our auditor was subject to this determination. In April 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB announced that it was able to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022. The PCAOB vacated its prior determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. For this reason, we do not expect to be identified as a Commission-Identified Issuer following the filing of our annual report for the fiscal year ending December 31, 2022. In accordance with the HFCAA, however, our securities will be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if the PCAOB is unable to inspect or completely investigate PCAOB-registered public accounting firms headquartered in China for three consecutive years in the future, or two consecutive years if proposed changes to the law, or the Accelerating Holding Foreign Companies Accountable Act, are enacted. In the event of such prohibition, the Nasdaq may determine to delist our securities.

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The HFCAA or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected. On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. On December 20, 2022, the Chair of the U.S. House Appropriations Committee joined the Chair of the U.S. Senate Appropriations Committee in releasing proposed legislation entitled “Consolidated Appropriations Act, 2023”, which also contains such provision. This proposed legislation, a product of bipartisan negotiations, is expected to be considered for approval first in the U.S. Senate and then in the U.S. House of Representatives on or before December 23, 2022. If this proposed legislation is approved by the U.S. Congress and signed into law by President Biden in its current form, and the number of consecutive non-inspection years required from triggering the prohibitions under the HFCAA is reduced from three years to two, then our shares and the ADSs could be prohibited from trading in the United States in a shorter period in the event that we become identified as a Commission-Identified Issuer.

If our shares and the ADSs are prohibited from trading in the United States, such a prohibition would substantially impair the ability of our investors to sell or purchase the ADSs when they wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our Class A ordinary shares or ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

It may be difficult for overseas authorities to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law (《中華人民共和國證券法》) (“**Article 177**”), which became effective in March 2020, no overseas authorities, including the SEC, the PCAOB, and the U.S. Department of Justice, can directly conduct investigation or evidence collection activities within the PRC and no entity or individual in China may provide documents and information relating to securities business activities to overseas authorities without PRC government approval. The Confidentiality and Archives Administration Provisions also emphasize that the investigation and evidence collection in relation to the overseas securities offering and listing by the domestic companies by the overseas authorities shall be conducted through the cross-border cooperation mechanism for supervision and

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administration. While detailed interpretation of or implementation rules under Article 177 are yet to be promulgated, and the Confidentiality and Archives Administration Provisions are only in the draft form for public comments, the inability for overseas authorities to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

Proceedings instituted by the SEC against the “big four” PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Starting in 2011 the “big four” China-based accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in 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 Chinese law, they could not respond directly to the U.S. 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 of 2002 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 did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms were to receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they failed to meet specified criteria, during a period of four years starting from the settlement date, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. We cannot predict if the SEC will further challenge the four China-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the “big four” China-based accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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In the event the “big four” China-based accounting firms become subject to additional legal challenges by the SEC or PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our ordinary shares may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the ADSs from Nasdaq Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the ADSs in the United States.

RISKS RELATED TO OUR CORPORATE STRUCTURE

We depend on contractual arrangements with our VIEs and their shareholders to operate a part of our business in China and to hold the necessary licenses for our operations, which may not be as effective as direct ownership in providing operational control and otherwise may 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 Consolidated Affiliated Entities, which our Cayman Islands holding company does not have equity interests in, to conduct a part of our operations in China and hold the necessary licenses for our operations, for example, the ICP license. For the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2022, we generated 0.2%, 0.3%, 0.3% and 0.4% of our total revenues through our Consolidated Affiliated Entities in China, respectively, whose assets accounted for 0.1%, 0.1%, 0.1% and 0.1% of our total assets during the same periods, respectively. For a description of these contractual arrangements, see “Contractual Arrangements.” You are not purchasing equity interest in our Consolidated Affiliated Entities in China, and instead are directly purchasing equity securities of a Cayman Islands holding company. Our contractual arrangements with VIEs may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities. If our VIEs or their shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our Consolidated Affiliated Entities 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 Consolidated Affiliated Entities, 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.

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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 and potential future actions by the PRC governments 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 Consolidated Affiliated Entities, 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 Our Presence 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 VIEs 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 VIEs to abide by the obligations under such contractual arrangements. The interests of these shareholders in their individual capacities as the shareholders of our VIEs may differ from the interests of our company as a whole, as what is in the best interests of our VIEs, 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 VIEs and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of our VIEs 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 VIEs 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 VIEs as provided under the power of attorney agreements, directly appoint new directors of our VIEs. We rely on the shareholders of our VIEs 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

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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 VIEs, 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.

If the PRC government deems that the contractual arrangements in relation to our Consolidated Affiliated Entities 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 Entry of Foreign Investment (Negative List) (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which came into effect on January 1, 2022 and replaced the previous 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, domestic multi-party communications service, store-and-forward service, and call center service provider which does not apply to us. The Special Administrative Measures for Entry of Foreign Investment (Negative List) (2021 Version) also provides that foreign investors are prohibited to own any equity interests in network culture operation, and the production and operation of broadcasting and television programs.

Futu Holdings Limited is a holding company incorporated in the Cayman Islands, which has no material operations. We conduct a substantial majority of our operations through our subsidiaries in Hong Kong and China and Consolidated Affiliated Entities in China. We control and receive the economic benefits of our Consolidated Affiliated Entities' operations through certain contractual arrangements.

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 are foreign-invested enterprises, or FIEs. To comply with PRC laws and regulations, we conduct our business in China through Shenzhen Futu and Hainan Futu, or our VIEs, and their affiliates. Shensi Beijing has entered into a series of contractual arrangements with our VIEs 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, each VIE and the shareholders of such VIE, as well as Shensi Beijing's rights under the exclusive option agreement between Shensi Beijing and the VIE. As a result of these resolutions and the provision of unlimited financial support

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from our Company to Shenzhen Futu, we are considered to be the primary beneficiary of our VIEs for accounting purposes under U.S. GAAP. For a description of these contractual arrangements, see “Contractual Arrangements”.

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC Legal Advisors, based on its understanding of the relevant laws and regulations currently in effect, are of the opinion that each of the contracts among our wholly-owned PRC subsidiary, our VIEs and their 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 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 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 Consolidated Affiliated Entities 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 or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, the relevant regulatory authorities would have broad discretion in dealing with such violations, including, but not limited to:

- 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;

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- requiring us to change our corporate structure and contractual arrangements, including terminating the contractual arrangement with the VIE and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate or exert effective control over the Consolidated Affiliated Entities;
- restricting or prohibiting our use of the proceeds from overseas offering to finance our Consolidated Affiliated Entities’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 “— Risks Related to Our Corporate Structure — Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance and business operations.” Our offshore holding company in the Cayman Island, our VIEs and our investors may face uncertainties about potential future actions relating to the VIE structure by Chinese government. Occurrence of any of these events could materially and adversely affect the enforceability of the contractual arrangement with our VIEs and, consequently, 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 Consolidated Affiliated Entities or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of our Consolidated Affiliated Entities in our consolidated financial statements. See “Contractual Arrangements.” In addition, our shares may decline in value if we are unable to assert our contractual control rights over the assets or receive the economic benefits of the VIE and its subsidiaries that conduct some of our operations.

If we exercise the option to acquire equity ownership of our VIE, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Special Administration Measures (Negative List) for Foreign Investment Access (2021) Edition (《外商投資准入特別管理措施(負面清單)(2021年版)》), and the Provisions on Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), or the FITE, the ultimate foreign equity ownership in a value-added telecommunications services provider cannot exceed 50%. In addition, even though the qualification requirements for the main foreign investors under the FITE, for which the main foreign investor who invests in a value-added telecommunications business in China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations in such industry, or the Qualification Requirements, has been cancelled since May 1, 2022, according to the State Council’s Decision to Amend and Abolish Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》). Currently, no applicable PRC laws, regulations or rules have provided further clear guidance on specific requirement or regulatory procedures had been published for foreign investment in the value-added telecommunications business in the PRC in view of the removal

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of the Qualification Requirements. Nevertheless, under the amended FITE Regulations, whilst foreign investors are able to invest in entities holding an ICP License (holding up to 50% equity interest and not more), whether an entity held by foreign shareholders may hold a value-added telecommunication license is still subject to the examination of substance and merits by relevant authority. In addition, the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) prohibits foreign investors from investing in internet audio-visual program services and internet culture activities with the exception of music.

If the PRC laws were revised to allow foreign investors to hold more than 50% of the equity interests of value-added telecommunications enterprises or to allow foreign investors to invest in enterprise with internet audio-visual program or internet culture activities businesses in China, due to the necessity of ICP services for internet audio-visual program services and internet cultural activities, we might be unable to unwind the Contractual Arrangements due to the reason that the relevant Consolidated Affiliated Entities provide commercial internet information and operate “prohibited” businesses (i.e. radio and television program production business and internet culture business) on the same platform. All these Relevant Businesses form an integral part of the Group’s business and are operated on the same platform, which cannot be separated apart from one another. According to the interview with the relevant authorities, we understand that a foreign-invested enterprise will not be granted with an ICP License if it also engages in foreign prohibited businesses such as radio and television program production and operation in addition to value-added telecommunication businesses. See “Contractual Arrangement” for further information.

Pursuant to the Contractual Arrangements, Shensi Beijing or its designated person has the exclusive right to purchase all or part of the equity interests in our VIEs at the lower of the amount of their respective paid-in capital in the VIE and the lowest price permitted under applicable PRC laws. Subject to relevant laws and regulations, the shareholders of our VIEs shall return any amount of purchase price they have received to Shensi Beijing. If such a transfer takes place, the relevant tax authority may ask Shensi Beijing to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

Futu Holdings Limited is a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory conditions and procedures, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain reserve funds until the total

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amount set aside reaches 50% of its registered capital. As of the Latest Practicable Date, our VIEs had made appropriations to statutory reserves. For a detailed discussion of applicable PRC regulations governing distribution of dividends, see “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Foreign Exchange — Regulations on Dividend Distribution.”

Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us. Furthermore, the PRC tax authorities may require our subsidiaries to adjust their taxable income under the contractual arrangements they currently have in place with our VIEs in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “— Risks Related to Our Corporate Structure — Our contractual arrangements with our VIEs may result in adverse tax consequences to us in the PRC.”

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See “— Risks Related to Our Presence 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.”

Our contractual arrangements with our VIEs may result in adverse tax consequences to us in the PRC.

We could face adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our VIEs 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 VIEs without reducing the tax liability of our subsidiaries, which could further result in late payment fees and other penalties to our VIEs for underpaid taxes; or (ii) limiting the ability of our VIEs to obtain or maintain preferential tax treatments and other financial incentives.

If the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could 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.

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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 Affiliated 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 Affiliated Entities, we, our PRC subsidiaries or Consolidated Affiliated 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.

We may lose the ability to use and benefit from assets held by our VIEs that are material to the operation of our business if either of our Consolidated Affiliated Entities goes bankrupt or becomes subject to dissolution or liquidation proceeding.

As part of our contractual arrangements with our VIEs, these entities may in the future hold certain assets that are material to the operation of our business. If either of our Consolidated Affiliated Entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, our Consolidated Affiliated Entities may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If either of our VIEs undergoes voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations. See "Financial Information — Significant Accounting Policies and Estimates — Basis of Consolidation."

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Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance and business operations.

The National People's Congress approved the Foreign Investment Law on March 15, 2019 and the State Council approved the Regulation on Implementing the Foreign Investment Law (《外商投資法實施條例》), or the Implementation Regulations on December 26, 2019, effective from January 1, 2020, to replace the trio of prior laws and their implementation rules and ancillary regulations regulating foreign investment in China. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since the Foreign Investment Law and the Implementation Regulations are relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

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RISKS RELATED TO OUR CLASS A ORDINARY SHARES AND ADSs

The trading price of the ADSs and Class A Ordinary Shares may be volatile, which could result in substantial losses to you.

The trading price of the ADSs has been volatile since the ADSs started to trade on the Nasdaq Global Market on March 8, 2019. The market price for the ADSs may continue to be volatile and subject to wide fluctuations in response to factors including, but not limited to, the following:

- regulatory developments affecting us or our industry or China-based companies in general;
- adverse market rumors, speculations, media reports or other negative publicity involving us or our industry or China-based companies in general, some of which may be unsubstantiated or inaccurate;
- 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 financial 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 financial 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.

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In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities, for example the significant volatility of the share prices after a series of policies and proposals issued by the Chinese government in relation to the education industry and cybersecurity review in 2021. See also “— Risks Related to Our Presence in China — Changes in social conditions, 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”. The trading performances of these companies’ securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our Class A Ordinary Shares or 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 other 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 engaged in any inappropriate activities. Furthermore, the stock market in general has experienced large price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like us. These broad market and industry fluctuations may adversely affect the market price of our Class A Ordinary Shares or ADSs. Volatility or a lack of positive performance in our Class A Ordinary Shares or ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. We may be the target of this type of litigation in the future. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

Certain principal shareholders have substantial influence over our key corporate matters and will continue to have such influence following the Listing, which may deprive you of an opportunity to receive a premium for the Class A Ordinary Shares and/or ADSs and materially reduce the value of your investment.

As of the Latest Practicable Date, Mr. Leaf Hua Li, our founder, chairman and chief executive officer, beneficially owned approximately 36.2% of the total issued share capital of the Company and approximately 59.4% of the voting power of the total issued and outstanding

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share capital of the Company. Accordingly, Mr. Li has 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 Class A Ordinary Shares and/or ADSs. These actions may be taken even if they are opposed by our other shareholders, including the holders of our Class A Ordinary Shares or ADSs.

Our 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 may view as beneficial, and may adversely affect the trading market for the shares.

Our authorized share capital is divided into Class A Ordinary Shares and Class B Ordinary Shares, together with certain undesignated shares which may be designated by our Board of directors. Holders of Class A Ordinary Shares are entitled to one vote per share, while holders of Class B Ordinary Shares are currently entitled to twenty votes per share as of the Latest Practicable Date and will be further reduced to ten votes per share (except as required by applicable law and in relation to the Reserved Matters) with effect from the Listing pursuant to the irrevocable written consent dated November 21, 2022 delivered by Mr. Li. Please see “Share Capital — Weighted Voting Rights Structure” for further details. 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. Upon any sale, transfer, assignment or disposition of any Class B Ordinary Shares by a holder thereof to any non-affiliate of such holder, each such Class B Ordinary Share will be automatically and immediately converted into one Class A Ordinary Share.

As of the Latest Practicable Date, 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 beneficially owned all of our issued Class B Ordinary Shares. These Class B Ordinary Shares constituted approximately 34.16% of our total issued and outstanding share capital and approximately 91.21% of the aggregate voting power of our total issued and outstanding share capital due to the disparate voting powers associated with our dual-class share structure. The considerable influence of holders of our Class B Ordinary Shares will be reduced immediately upon the Listing, as a result of (i) the conversion of Class B ordinary shares held by Tencent Group into Class A ordinary shares upon the Listing and (ii) an amendment to Class B Ordinary Share’s voting power, where Class B Ordinary Shares will be capped at ten votes per share with effect from the Listing pursuant to the irrevocable written consent dated November 21, 2022 delivered by Mr. Li, while Class A Ordinary Shares will continue entitling the Shareholder to one vote per share. Upon the Listing and assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date), Mr. Li will become the sole owner of our Class B Ordinary Shares and his Class B Ordinary Shares will represent approximately 73.28% of the voting rights in our Company. On the other hand, as a result of the conversion of Class B Ordinary Shares held

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by Tencent Group into Class A Ordinary Shares upon Listing, Tencent Group will beneficially own 247,418,662 Class A Ordinary Shares, representing approximately 7.56% of the voting power of our total issued and outstanding shares assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date. Such conversion will have a dilutive impact on the voting right of our Class A Ordinary Shares in matters that is submitted to the class voting of holders of Class A Ordinary Shares only.

As a result of the above-mentioned concentration of our Share's voting power and ownership, holders of Class B Ordinary Shares 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. Our dual-class share structure and 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 our Class A Ordinary Shares or 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.

The structure of our share capital may render the Class A Ordinary Shares and/or ADSs ineligible for inclusion in certain stock market indices, and thus adversely affect the market price and liquidity of the Class A Ordinary Shares and/or ADSs.

We cannot predict whether our dual-class share structure with different voting rights will result in a lower or more volatile market price of our Class A Ordinary Shares or the ADSs, in adverse publicity, or other adverse consequences. Certain index providers have announced restrictions on including companies with multi-class share structures in certain of their indices. For example, S&P Dow Jones and FTSE Russell have changed their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. As a result, our dual-class voting structure may prevent the inclusion of the ADSs representing our Class A Ordinary Shares in such indices, which could adversely affect the trading price and liquidity of the ADSs representing our Class A Ordinary Shares. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structure and our dual-class structure may cause shareholder advisory firms to publish negative commentary about our corporate governance, in which case the market price and liquidity of our Class A Ordinary Shares or the ADSs could be adversely affected.

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

The trading market for our Class A Ordinary Shares and 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 our Class A Ordinary Shares and/or ADSs or publishes inaccurate or unfavorable research about our business, the market price for our Class A Ordinary Shares and/or 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 our Class A Ordinary Shares and/or ADSs to decline.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of the Class A Ordinary Shares or ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings 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. Therefore, you should not rely on an investment in our Class A Ordinary Shares and 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 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 flows, 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 our Class A Ordinary Shares and/or ADSs will likely depend entirely upon any future price appreciation of our Class A Ordinary Shares and/or ADSs (as the case may be). There is no guarantee that our Class A Ordinary Shares and/or ADSs will appreciate in value or even maintain the price at which you purchased our Class A Ordinary Shares and/or ADSs. You may not realize a return on your investment in the Class A Ordinary Shares and/or ADSs and you may even lose your entire investment in our Class A Ordinary Shares or ADSs.

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Substantial future sales or perceived potential sales of our listed securities in the public market could cause their trading price to decline.

Sales of substantial amounts of our Class A Ordinary Shares and/or ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our Class A Ordinary Shares and ADSs and could materially impair our future ability to raise capital through equity offerings in the future. All of the ADSs representing our Class A Ordinary Shares sold in our initial public offering and follow-on offering are 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 our initial public 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 holders of the ADSs must act through the depository to exercise those rights.

Holders of ADSs do not have the same rights as our registered shareholders. Holders of ADSs do not have any right to attend general meetings of our shareholders or to cast any votes at such meetings. ADS holders will only be able to exercise the voting rights which are carried by the underlying Class A Ordinary Shares represented by their ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. If we instruct the depository to ask for instructions from ADS holders, then upon receipt of such voting instructions, the depository will try, as far as practicable, to vote the underlying Class A Ordinary Shares that are represented by the relevant ADSs, in accordance with the instructions from the ADS holder. If we do not instruct the depository to ask for instructions from ADS holders, the depository may still vote in accordance with instructions you give, but it is not required to do so. Under the deposit agreement for the ADSs, if ADS holders do not vote, the depository will give us a discretionary proxy to vote our Class A ordinary shares underlying ADSs at shareholders’ meetings if:

- we have timely provided the depository with notice of meeting and related voting materials;
- we have instructed the depository that we wish a discretionary proxy to be given;
- we have informed the depository that there is no substantial opposition as to a matter to be voted on at the meeting; and
- a matter to be voted on at the meeting would not have a material adverse impact on shareholders.

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The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our Class A ordinary shares underlying your ADSs from being voted under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A ordinary shares are not subject to this discretionary proxy. ADS holders will not be able to directly exercise their right to vote with respect to the underlying Class A Ordinary Shares represented by their ADSs unless they withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our currently effective amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is 10 calendar days. When a general meeting is convened, ADS holders may not receive sufficient advance notice of the meeting to withdraw the shares underlying their 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 memorandum and articles of association, 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 an ADS holder from withdrawing the Class A Ordinary Shares underlying its ADSs and becoming the registered holder of such shares prior to the record date, so that such holder would not be able to attend the general meeting or to vote directly. If we ask for instructions from ADS holders, the depositary will notify ADS holders of the upcoming vote and will arrange to deliver our voting materials to them. We have agreed to give the depositary at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure ADS holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote the underlying shares represented by their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out voting instructions received from ADS holders. This means that ADS holders may not be able to exercise their rights to direct how the shares underlying their ADSs are voted and they may have no legal remedy if the shares underlying their ADSs are not voted as they requested.

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The right of the ADS holders 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 ADS holders 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, ADS holders may be unable to participate in our rights offerings in the future and may experience dilution in their holdings.

Holders of the ADSs may not receive cash dividends or other distributions 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. To the extent that there is a distribution, the depository has agreed to pay to holders of ADSs 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. ADS holders will receive these distributions in proportion to the number of Class A Ordinary Shares their 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 such ADS holders.

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

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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 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.

ADS 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 any 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, such 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.

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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.

Holders of the ADSs may be subject to limitations on transfer of their ADSs.

The 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.

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 substantially 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 document 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.

You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong or 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 Act (As Revised) 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

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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 either (i) 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 (ii) to obtain copies of lists of shareholders of these companies. Our directors have discretion under our 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. 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.

Our currently effective 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 at a premium.

Our Memorandum and Articles 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. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of

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management more difficult. If our board of directors decides to issue preferred shares, the price of our Class A Ordinary Shares and/or ADSs may fall and the voting and other rights of the holders of our Class A Ordinary Shares and ADSs may be materially and adversely affected.

However, our exercise of any such power that may limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions under our Articles after the Listing will be subject to our overriding obligations to comply with all applicable Hong Kong laws and regulations, the Listing Rules, and the Takeovers Code. We will at the First GM, propose to our Shareholders certain amendments to our Articles, including removing the Directors' powers under the Articles to authorize the division of shares into any number of classes and to determine the relative rights, restrictions, preferences, privileges and payment obligations as between the different classes and to issue the shares with such preferred or other rights which may be greater than the rights of ordinary shares, as well as making the Directors' power to issue preferred shares to be subject to the Articles, compliance with the Listing Rules (and only to such extent permitted thereby) and the Takeovers Code and any applicable rules and regulations of authorities of places where the securities of the Company are listed, and the condition that (x) no new class of shares with voting rights superior to Class A Ordinary Shares will be created and (y) any variation in the relative rights as between the different classes will not result in creating new class of shares with voting rights superior to those of Class A Ordinary Shares. For a more detailed discussion on the proposed amendments to our currently effective Articles, please see the paragraph headed "Waivers – Requirements Relating to the Articles of Association of the Company" in this document.

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.

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We are 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 country, may differ significantly from the Nasdaq listing standards. Currently, we rely on home country practice as our audit committee consists of two independent directors. We also rely on home country practice exemption with respect to the requirement for annual shareholders meeting and did not hold an annual shareholders meeting in 2021. As a result, our shareholders are afforded less protection than they would otherwise enjoy under the Nasdaq listing standards applicable to U.S. domestic issuers.

We are 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 United States domestic companies.

We are 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, owns more than 50% of our total voting power. We are permitted to elect to rely, and are currently relying, on certain exemptions from corporate governance rules under the Nasdaq Stock Market Rules. Currently, the majority of our board of directors are not independent directors. In addition, the compensation of our executive officers are not determined or recommended solely by independent directors, and our director nominees are not selected or recommended solely by independent directors. As a result, you do not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

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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 Class A Ordinary Shares to significant adverse United States income tax consequences.

We will be classified as a passive foreign investment company (“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 (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income, or the asset test. Although the law in this regard is unclear, we intend to treat our VIEs (including their subsidiaries) 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 VIEs (including their subsidiaries) for United States federal income tax purposes, and based upon our current and expected income and assets, we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and do not 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 our Class A Ordinary Shares and/or ADSs, fluctuations in the market price of our Class A Ordinary Shares and/or 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. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIEs 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 dependent upon the actual financial results for each year in question, 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. person who invests in the ADSs or ordinary shares 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.

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We incur and may continue to incur increased costs as a result of being a public company.

As a public company, we 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 the Nasdaq Global Market, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costlier. As 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 need to adopt policies regarding internal controls and disclosure controls and procedures. 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 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 will also incur additional costs as a result of the Listing on the Hong Kong Stock Exchange. 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.

We may be involved in class action lawsuits in the United States in the future. Such lawsuits could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the lawsuits. See “— Risks Related to Our Class A Ordinary Shares and ADSs — The trading price of the ADSs and Class A Ordinary Shares may be volatile, which could result in substantial losses to you.”

Techniques employed by short sellers may drive down the market price of our Class A Ordinary Shares and ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third-party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller’s interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

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Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and stockholder's equity, and any investment in our Class A Ordinary Shares or ADSs could be greatly reduced or rendered worthless.

Your investment in our Class A Ordinary Shares or ADS may be impacted if we are encouraged to issue CDRs in the future.

PRC government authorities have issued new rules that allow PRC technology companies listed outside China to list on the Mainland China stock market through the creation of Chinese Depositary Receipts ("CDRs"). However, as the CDR mechanism is newly established, there are substantial uncertainties in the interpretation and implementation of these rules. We might consider and be encouraged by the evolving PRC governmental policies to issue CDRs and allow investors to trade our CDRs on PRC stock exchanges in the future. However, there are uncertainties as to whether a pursuit of CDRs in China would bring positive or negative impact on your investment in our Class A Ordinary Shares or ADSs.

RISKS RELATED TO THE LISTING

An active trading market for our Class A Ordinary Shares on the Stock Exchange might not develop or be sustained, their trading prices might fluctuate significantly and the effectiveness of the bridging and liquidity arrangements might be limited.

Following the completion of the Listing, we cannot assure you that an active trading market for our Class A Ordinary Shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for the ADSs on the Nasdaq Global Market might not be indicative of those of our Class A Ordinary Shares on the Hong Kong Stock Exchange

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following the completion of the Listing. If an active trading market of our Class A Ordinary Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Listing, the market price and liquidity of our Class A Ordinary Shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai, and Shenzhen stock exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and PRC investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai, and Shenzhen markets. Stock Connect allows PRC investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, PRC investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen stock exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary or dual-primary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Class A Ordinary Shares of our Company, a WVR company with a dual-primary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Class A Ordinary Shares for trading through Stock Connect will affect PRC investors' ability to trade our Class A Ordinary Shares and therefore may limit the liquidity of the trading of our Class A Ordinary Shares on the Hong Kong Stock Exchange.

Throughout the Bridging Period, the Designated Dealers intend to implement certain bridging and liquidity arrangements as set out in the section headed "Market Arrangements to Facilitate Dealings in Hong Kong — Bridging Arrangements." While such arrangements are expected to contribute towards liquidity to meet demand for our Class A ordinary shares in Hong Kong and to maintain a fair and orderly market, investors should be aware that such bridging and liquidity arrangements are subject to the Designated Dealers' ability to obtain sufficient numbers of our Class A ordinary shares to meet demand.

There is no guarantee that such bridging and liquidity arrangements will attain and/or maintain liquidity in our Class A Ordinary Shares at any particular level on the Hong Kong Stock Exchange, nor is there any assurance that the price of our Class A Ordinary Shares in Hong Kong will not exhibit significant volatility. We also cannot guarantee you that the price at which our Class A Ordinary Shares are traded on the Hong Kong Stock Exchange will be substantially the same as or similar to the price at which the ADSs are traded on the Nasdaq Global Market or that any particular volume of our Class A Ordinary Shares will be traded on the Hong Kong Stock Exchange. The bridging and liquidity arrangements being implemented in connection with the Listing are not equivalent to the price stabilization activities which may be undertaken in connection with an initial public offering. The bridging and liquidity arrangements will terminate and cease to continue beyond the Bridging Period. Accordingly, there may be volatility in the Hong Kong market after the Bridging Period.

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The characteristics of the U.S. capital markets and the Hong Kong capital markets are different.

The Nasdaq Global Market and the Hong Kong Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Class A Ordinary Shares and the ADSs representing them might not be the same, even allowing for currency differences. Fluctuations in the price of the ADSs due to circumstances peculiar to its home capital market could materially and adversely affect the price of the Class A Ordinary Shares. Because of the different characteristics of the U.S. and Hong Kong equity markets, the historic market prices of the ADSs may not be indicative of the performance of our securities (including the ordinary shares) after the Listing.

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading of the ADSs or to interchanges between ADSs and Class A Ordinary Shares following listing of our Class A Ordinary Shares on the Stock Exchange.

In connection with listing of our Class A Ordinary Shares in Hong Kong, or the Listing, we will establish a branch register of members in Hong Kong, or the Hong Kong Share register. Our Class A Ordinary Shares that are traded on the Hong Kong Stock Exchange will be registered on the Hong Kong Share register, and the trading of these Shares on the Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and trading between the Nasdaq Global Market and the Stock Exchange, we also intend to move a portion of our issued Class A Ordinary Shares from our register of members maintained in the Cayman Islands to our Hong Kong Share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.26% of the greater of the consideration for, or the value of, shares transferred, with 0.13% payable by each of the buyer and the seller. See “Information about This Document and the Introduction — Dealings and Settlement of Class A Ordinary Shares in Hong Kong.”

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs representing shares of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their common shares, including common shares underlying ADSs, in their Hong Kong share registers or on interchanges between those shares and ADSs. However, it is unclear whether, as a matter of Hong Kong law, the trading of these ADSs or deposits in or withdrawals from these ADS facilities for these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered common shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the

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competent authority to apply to the trading of the ADSs or interchanges between the ADSs and our Class A Ordinary Shares, the trading price and the value of your investment in our Class A Ordinary Shares and/or the ADSs may be affected.

Exchange between our Class A Ordinary Shares and the ADSs may adversely affect the liquidity and/or trading price of each other.

The ADSs are currently traded on the Nasdaq Global Market. Subject to compliance with U.S. securities laws and the terms of the deposit agreement, holders of our Class A Ordinary Shares may deposit Class A Ordinary Shares with the depositary in exchange for the issuance of the ADSs. Any holder of ADSs may also withdraw the underlying Class A Ordinary Shares represented by the ADSs pursuant to the terms of the deposit agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Class A Ordinary Shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and trading price of our Class A Ordinary Shares on the Hong Kong Stock Exchange and the ADSs on the Nasdaq Global Market may be adversely affected.

The time required for the exchange between Class A Ordinary Shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Class A Ordinary Shares into ADSs involves costs.

There is no direct trading or settlement between the Nasdaq Global Market and the Hong Kong Stock Exchange on which the ADSs and our Class A Ordinary Shares are respectively traded. In addition, the time differences between Hong Kong and New York, unforeseen market circumstances, or other factors may delay the deposit of Class A Ordinary Shares in exchange for the ADSs or the withdrawal of Class A Ordinary Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, we cannot assure you that any exchange for Class A Ordinary Shares into ADSs (and vice versa) will be completed in accordance with the timelines that investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Class A Ordinary Shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs, and annual service fees. As a result, shareholders who exchange Class A Ordinary Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

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In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

<u>No.</u>	<u>Rules</u>	<u>Subject matter</u>
1.	Rule 8.12 of the Listing Rules	Management Presence in Hong Kong
2.	Rules 3.28 and 8.17 of the Listing Rules	Joint Company Secretaries
3.	Chapter 14A of the Listing Rules	Continuing Connected Transactions
4.	Rule 8A.44 of, and Appendix 3 to, the Listing Rules	Requirements relating to the Articles of Association of the Company
5.	Rules 4.10 and 4.11 of, and Note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules	Use of U.S. GAAP
6.	Rule 9.09(b) of the Listing Rules	Dealing in Shares prior to Listing
7.	Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules	Waiver in relation to the 2014 Plan and the 2019 Plan
8.	Note (1) to Rule 17.03(9) of the Listing Rules	Exercise price of options to be granted pursuant to the 2014 Plan and the 2019 Plan after the Listing
9.	Rules 4.04(2) and 4.04(4)(a) of the Listing Rules	Acquisition after the Track Record Period
10.	Paragraph 26 of Part A of Appendix 1 to the Listing Rules	Disclosure Requirements with respect to Changes in the Share Capital
11.	Rule 10.08 of the Listing Rules	Waiver in relation to Share Issuance within Six Months from the Listing Date

WAIVERS

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Notwithstanding our Group operates as an all-round online financial services platform based in Hong Kong with an extended international footprint in the U.S. and Singapore as well as strong background and abundant resources in the PRC, our executive Directors and a majority of our senior management members are and will continue to be based in Shenzhen, the PRC, being the city where we commenced our operations in December 2007 and locate a majority of our management and administration resources.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to achieve regular communication with the Stock Exchange:

- (a) The Company has appointed Mr. Li, our founder, chairman of the Board, executive Director and chief executive officer, and Ms. Lam Wing Chi (“**Ms. Lam**”, one of the joint company secretaries of the Company), as the authorized representatives (“**Authorized Representatives**”) for the purpose of Rule 3.05 of the Listing Rules. They will act as the Company’s principal channel of communication with the Stock Exchange. Each of them has confirmed that he/she can be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange. In addition, in order to further ensure that enquiries from the Stock Exchange will be promptly dealt with, Mr. Arthur Yu Chen (“**Mr. Chen**”), our chief financial officer who ordinarily resides in Hong Kong, has also been appointed as an alternate authorized representative of the Company for communication with the Stock Exchange. The Company has provided contact details of the two Authorized Representatives and Mr. Chen to the Stock Exchange and will inform the Stock Exchange as soon as practicable in respect of any change in the Company’s authorized representatives. Mr. Li has also confirmed that he possesses valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. The Directors have also provided their contacts to the Stock Exchange and the Authorized Representatives pursuant to Rule 3.20 of the Listing Rules;
- (b) Our Authorized Representatives and Mr. Chen have means of contacting all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange proposes to contact a Director with respect to any matters;

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- (c) All the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice;
- (d) Our Company has appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rules 3A.19 and 8A.33 of the Listing Rules. The Compliance Adviser will, among other things and in addition to the Authorized Representatives, provide our Company with professional advice on continuing obligations under the Listing Rules and act as additional channel of communication of our Company with the Stock Exchange from the Listing. Further, pursuant to Rule 8A.33 of the Listing Rules, the Company is required to engage a compliance advisor on a permanent basis; and
- (e) Meetings between the Stock Exchange and our Directors could be arranged through our Authorized Representatives or our Compliance Adviser, or directly with our Directors within a reasonable period. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the Authorized Representatives, the Directors and/or the Compliance Adviser of the Company in accordance with the Listing Rules.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, a new applicant for listing on the Stock Exchange must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

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In addition, pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Yu Qian (“**Mr. Yu**”) and Ms. Lam, as the joint company secretaries of our Company. Mr. Yu is currently the legal director of the Company and has extensive experience in handling corporate, legal and regulatory compliance and administrative matters, as well as a thorough understanding of the daily operations and internal administration of our Group. Mr. Yu presently does not possess the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to fulfill the requirements of the Listing Rules on his own. Therefore, our Company has appointed Ms. Lam, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules, to act as the other joint company secretary and provide assistance to Mr. Yu for an initial period of three years from the Listing Date. Ms. Lam is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute (formerly “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute (formerly “The Institute of Chartered Secretaries and Administrators”) in the United Kingdom. For further details about Mr. Yu and Ms. Lam’s qualifications and experiences, please see “Directors and Senior Management — Joint Company Secretaries” in this document.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules for an initial period of three years from the Listing Date in accordance with Guidance Letter HKEX-GL108-20, on the basis of the proposed arrangements below:

- (a) Mr. Yu will endeavor to attend relevant training courses, including briefings on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules which will be organized by our Hong Kong legal advisers on an invitation basis and seminars organized by the Stock Exchange for listed issuers from time to time;

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- (b) Both Mr. Yu and Ms. Lam have confirmed that each of them will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investors relation as well as the functions and duties of the company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules;
- (c) Ms. Lam will assist Mr. Yu to enable him to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as our company secretary;
- (d) Ms. Lam will communicate regularly with Mr. Yu on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to our Company and its affairs. Ms. Lam will work closely with, and provide assistance for, Mr. Yu in the discharge of his duties as a company secretary, including organizing our Board meetings and Shareholders' general meetings;
- (e) Upon expiry of Mr. Yu's initial term of appointment as the company secretary of our Company, our Company will evaluate his experience in order to determine if he has acquired the qualifications required under Rule 3.28 of the Listing Rules, and whether on-going assistance should be arranged so that Mr. Yu's appointment as the company secretary of the Company continues to satisfy the requirements under Rules 3.28 and 8.17 of the Listing Rules;
- (f) The Company has appointed Guotai Junan Capital Limited as our Compliance Adviser pursuant to Rules 3A.19 and 8A.33 of the Listing Rules which will act as the additional communication channel with the Stock Exchange from the Listing Date and provide professional guidance and advice to the Company and Mr. Yu as to the compliance with the Listing Rules and all other applicable laws and regulations; and
- (g) The waiver can be revoked with immediate effect if there are material breaches of the Listing Rules by the Company.

Prior to the expiry of the initial three-year period, the qualification of Mr. Yu will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

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CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (where applicable) (i) the announcement, (ii) annual reporting requirement, (iii) independent Shareholders' approval requirement, (iv) the annual cap requirement, and (v) the requirement of limiting the term of the continuing connected transactions under Chapter 14A of the Listing Rules. For further details in this respect, see "Connected Transactions" in this document.

REQUIREMENTS RELATING TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

As the Company is applying for a dual primary listing on the Stock Exchange, the Articles are required to comply with Appendix 3 to the Listing Rules, which sets out the core shareholder protection standards. Rule 19.30(1)(b) of the Listing Rules provides that the Stock Exchange may refuse a listing if it is not satisfied that the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong.

Rule 8A.44 of the Listing Rules requires issuers with WVR structure such as our Company to give force to the requirements of Rules 8A.07, 8A.09, 8A.10, 8A.13, 8A.14, 8A.15, 8A.16, 8A.17, 8A.18, 8A.19, 8A.21, 8A.22, 8A.23, 8A.24, 8A.26, 8A.27, 8A.28, 8A.29, 8A.30, 8A.31, 8A.32, 8A.33, 8A.34, 8A.35, 8A.37, 8A.38, 8A.39, 8A.40 and 8A.41 of the Listing Rules by incorporating them into their articles of association or equivalent document (together with the requirements under Appendix 3 to the Listing Rules, the "**Listing Rules Articles Requirements**").

The Articles do not comply with some of the Listing Rules Articles Requirements, namely, (i) paragraphs 4(2), 14(1), 14(2), 14(3), 14(4), 14(5), 15, 16, 17, 19, 20 and 21 of Appendix 3 to the Listing Rules, (ii) Rules 8A.09, 8A.10, 8A.13 to 8A.19, 8A.22 to 8A.24, 8A.26 to 8A.35 and 8A.37 to 8A.41 of the Listing Rules (together, the "**Unmet Listing Rules Articles Requirements**"). Other than the said Unmet Listing Rules Articles Requirements, the remaining Listing Rules Articles Requirements are met by the Articles. The Company will seek Shareholders' approval to incorporate the Unmet Listing Rules Articles Requirements into its Articles at its first general meeting to be convened on or before June 30, 2023 (the "**First GM**").

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Details of the Unmet Listing Rules Articles Requirements to be incorporated into the Articles are set out below:

(a) To be approved by Dual Class-based Resolution (defined below)

- (1) The articles of association shall stipulate that a super-majority vote (at least three-fourths of the voting rights of the members holding shares in that class present and voting in person or by proxy at a separate general meeting of members of the class where the quorum for such meeting shall be holders of at least one third of the issued shares of the class) of the issuer's members of the class to which the rights are attached shall be required to approve a change to those rights (paragraph 15 of Appendix 3 to the Listing Rules);

(b) To be approved by Single Class-based Resolution (defined below)

- (2) Non-WVR shareholders (as defined under the Listing Rules) must be entitled to cast at least 10% of the votes that are eligible to be cast on resolutions at the listed issuer's general meetings.

Note 1: Compliance with this rule means, for example, that an issuer cannot list with a WVR structure that attaches 100% of the right to vote at general meetings to the beneficiaries of weighted voting rights.

Note 2: A beneficiary of weighted voting rights must not take any action that would result in a non-compliance with this rule.

A listed issuer must not increase the proportion of shares that carry weighted voting rights above the proportion in issue at the time of listing.

Note: If the proportion of shares carrying weighted voting rights is reduced below the proportion in issue at the time of listing, Rule 8A.13 of the Listing Rules shall apply to the reduced proportion of shares carrying weighted voting rights (Rules 8A.09 and 8A.13 of the Listing Rules);

- (3) A class of shares conferring weighted voting rights in a listed issuer must not entitle the beneficiary to more than ten times the voting power of ordinary shares, on any resolution tabled at the issuer's general meetings (Rule 8A.10 of the Listing Rules);

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- (4) A listed issuer with a WVR structure may only allot, issue or grant shares carrying weighted voting rights with the prior approval of the Stock Exchange and pursuant to (a) an offer made to all the issuer's shareholders pro rata (apart from fractional entitlements) to their existing holdings; (b) a pro rata issue of shares to all the issuer's shareholders by way of scrip dividends; or (c) pursuant to a stock split or other capital reorganization; provided that the Stock Exchange is satisfied that the proposed allotment or issuance will not result in an increase in the proportion of shares carrying weighted voting rights:
- (i) if, under a pro rata offer, beneficiaries of weighted voting rights do not take up any part of the shares carrying weighted voting rights (or rights to those shares) offered to them, those shares (or rights) not taken up could only be transferred to another person on the basis that such transferred rights will only entitle the transferee to an equivalent number of ordinary shares; and
 - (ii) to the extent that rights in a listed issuer's shares not carrying weighted voting in a pro rata offer are not taken up in their entirety (e.g. in the case where the pro rata offering is not fully underwritten), the number of the listed issuer's shares carrying weighted voting rights that can be allotted, issued or granted must be reduced proportionately (Rule 8A.14 of the Listing Rules);
- (5) If a listed issuer with a WVR structure reduces the number of its shares in issue (e.g. through a purchase of its own shares) the beneficiaries of weighted voting rights must reduce their weighted voting rights in the issuer proportionately (for example through conversion of a proportion of their shareholding with those rights into shares without those rights), if the reduction in the number of shares in issue would otherwise result in an increase in the proportion of the listed issuer's shares that carry weighted voting rights (Rule 8A.15 of the Listing Rules);
- (6) After listing, a listed issuer with a WVR structure must not change the terms of a class of its shares carrying weighted voting rights to increase the weighted voting rights attached to that class (Rule 8A.16 of the Listing Rules);

Note: If a listed issuer wishes to change the terms of a class of its shares carrying weighted voting rights to reduce those rights it may do so but must, in addition to complying with any requirements under law, first obtain the prior approval of the Stock Exchange and, if approval is granted, must announce the change.

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- (7) The beneficiary's weighted voting rights in a listed issuer must cease if, at any time after listing, the beneficiary is:
- (i) deceased;
 - (ii) no longer a member of the issuer's board of directors;
 - (iii) deemed by the Stock Exchange to be incapacitated for the purpose of performing his or her duties as a director; or
 - (iv) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules.

The weighted voting rights attached to a beneficiary's shares must cease upon transfer to another person of the beneficial ownership of, or economic interest in those shares or the control over the voting rights attached to them (through voting proxies or otherwise). A limited partnership, trust, private company or other vehicle may hold shares carrying weighted voting rights on behalf of a beneficiary of weighted voting rights provided that such an arrangement does not result in a circumvention of Rule 8A.18(1) of the Listing Rules. The Stock Exchange would not consider a lien, pledge, charge or other encumbrance on shares carrying weighted voting rights to be a transfer for the purpose of Rule 8A.18 of the Listing Rules on condition that this does not result in the transfer of the legal title or beneficial ownership of those shares or the voting rights attached to them (through voting proxies or otherwise). The Stock Exchange would consider a transfer to have occurred under Rule 8A.18 of the Listing Rules if a beneficiary of weighted voting rights and a non-WVR shareholder(s) enter into any arrangement or understanding to the extent that this resulted in a transfer of weighted voting rights from the beneficiary of those weighted voting rights to the non-WVR shareholder (Rules 8A.17, 8A.18(1), 8A.18(2) and 8A.19 of the Listing Rules).

If a vehicle holding shares carrying weighted voting rights in a listed issuer on behalf of a beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules, the beneficiary's weighted voting rights in the listed issuer must cease. The issuer and beneficiary must notify the Stock Exchange as soon as practicable with details of the non-compliance;

- (8) A listed issuer's WVR structure must cease when none of the beneficiaries of the weighted voting rights at the time of the issuer's initial listing have beneficial ownership of shares carrying weighted voting rights (Rule 8A.22 of the Listing Rules);

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- (9) Any weighted voting rights attached to any class of shares in a listed issuer must be disregarded and must not entitle the beneficiary to more than one vote per share on any resolution to approve the following matters: (i) changes to the listed issuer's constitutional documents, however framed; (ii) variation of rights attached to any class of shares; (iii) the appointment or removal of any independent non-executive director; (iv) the appointment or removal of auditors; and (v) the voluntary winding-up of the listed issuer (Rule 8A.24 of the Listing Rules);

(c) To be approved by Non-class-based Resolution (defined below)

- (10) Non-WVR shareholders must be able to convene an extraordinary general meeting and add resolutions to the meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights on a one vote per share basis in the share capital of the listed issuer (Rule 8A.23 of the Listing Rules);
- (11) The articles of association shall stipulate that any person appointed by the directors to fill a casual vacancy on or as an addition to the board shall hold office only until the first annual general meeting of the issuer after his appointment, and shall then be eligible for re-election (paragraph 4(2) of Appendix 3 to the Listing Rules);
- (12) The articles of association shall require the issuer to hold a general meeting for each financial year as its annual general meeting (paragraph 14(1) of Appendix 3 to the Listing Rules);
- (13) The articles of association shall stipulate that any annual general meeting must be called by notice of at least 21 days, and that any other general meeting (including an extraordinary general meeting) must be called by notice of at least 14 days (paragraph 14(2) of Appendix 3 to the Listing Rules);
- (14) The articles of association shall stipulate that members must have the right to (i) speak at a general meeting; and (ii) vote at a general meeting except where a member is required, by the Listing Rules, to abstain from voting to approve the matter under consideration (paragraph 14(3) of Appendix 3 to the Listing Rules);
- (15) The articles of association shall provide that, where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted (paragraph 14(4) of Appendix 3 to the Listing Rules);

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- (16) The articles of association shall stipulate that members holding a minority stake in the total number of issued shares must be able to convene an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the issuer (paragraph 14(5) of Appendix 3 to the Listing Rules);
- (17) The articles of association shall stipulate that a super-majority vote (at least three-fourths of the voting rights of the members present and voting in person or by proxy in a general meeting) shall be required to approve changes to the issuer's constitutional documents, however framed (paragraph 16 of Appendix 3 to the Listing Rules);
- (18) The articles of association shall stipulate that the appointment, removal and remuneration of auditors must be approved by a majority of the issuer's members or other body that is independent of the board of directors (paragraph 17 of Appendix 3 to the Listing Rules);
- (19) The articles of association shall stipulate that HKSCC must be entitled to appoint proxies or corporate representatives to attend the issuer's general meetings and creditors meetings and those proxies/corporate representatives must enjoy rights equivalent to the rights of other shareholders, including the right to speak and vote (paragraph 19 of Appendix 3 to the Listing Rules);
- (20) The articles of association shall provide for the branch register of members in Hong Kong to be open for inspection by members but may permit the company to close the register on terms equivalent to section 632 of the Companies Ordinance (paragraph 20 of Appendix 3 to the Listing Rules);
- (21) The articles of association shall stipulate that a super-majority vote (at least three-fourths of the total voting rights of the members present and voting in person or by proxy at the general meeting) of the issuer's members in a general meeting shall be required to approve a voluntary winding up of an issuer (paragraph 21 of Appendix 3 to the Listing Rules);
- (22) The role of an independent non-executive director of a listed issuer with a WVR structure must include but is not limited to the functions described in Code Provisions C.1.2, C.1.6 and C.1.7 in Part 2 of Appendix 14 to the Listing Rules:
- (i) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
 - (ii) taking the lead where potential conflicts of interests arise;

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- (iii) serving on the audit, compensation, nomination and other governance committees, if invited; and
- (iv) scrutinizing the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting;

Independent non-executive directors and other non-executive directors, as equal board members, shall give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally, they should also attend general meetings to gain and develop a balanced understanding of the views of the shareholders; and

Independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments (Rule 8A.26 of the Listing Rules).

- (23) Issuers with a WVR structure must establish a nomination committee that complies with Code Provision B.3 of Appendix 14 to the Listing Rules to:
- (i) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy;
 - (ii) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;
 - (iii) assess the independence of independent non-executive directors; and
 - (iv) make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.

Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.

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Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:

- (i) the process used for identifying the individual and why the board believes the individual should be elected and the reasons why the board considers the individual to be independent;
 - (ii) if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the board believes the individual would still be able to devote sufficient time to the board;
 - (iii) the perspectives, skills and experience that the individual can bring to the board; and
 - (iv) how the individual contributes to diversity of the board (Rule 8A.27 of the Listing Rules);
- (24) The nomination committee established under Rule 8A.27 of the Listing Rules must be chaired by an independent non-executive director (Rules 8A.28 of the Listing Rules);
- (25) The independent non-executive directors of an issuer with a WVR structure must be subject to retirement by rotation at least once every three years. Independent non-executive directors are eligible for re-appointment at the end of the three year term (Rule 8A.29 of the Listing Rules);
- (26) An issuer with a WVR structure must establish a corporate governance committee with at least the terms of reference set out in Code Provision A.2.1 of Appendix 14 to the Listing Rules, and the following additional terms to:
- (i) develop and review the issuer's policies and practices on corporate governance and make recommendations to the board;
 - (ii) review and monitor the training and continuous professional development of directors and senior management;
 - (iii) review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;
 - (iv) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

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- (v) review the issuer's compliance with the code and disclosure in the Corporate Governance Report (as defined in the Listing Rules);
- (vi) review and monitor whether the issuer is operated and managed for the benefit of all of its shareholders;
- (vii) confirm, on an annual basis, that beneficiaries of weighted voting rights have been members of the listed issuer's board of directors throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the relevant financial year;
- (viii) confirm, on an annual basis, whether or not the beneficiaries of weighted voting rights have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year;
- (ix) review and monitor the management of conflicts of interests and make a recommendation to the board on any matter where there is a potential conflict of interest between the issuer, a subsidiary of the issuer and/or shareholders of the issuer (considered as a group) on the one hand and any beneficiary of weighted voting rights on the other;
- (x) review and monitor all risks related to the issuer's WVR structure, including connected transactions between the issuer and/or a subsidiary of the issuer on one hand and any beneficiary of weighted voting rights on the other and make a recommendation to the board on any such transaction;
- (xi) make a recommendation to the board as to the appointment or removal of the Compliance Adviser (as defined under the Listing Rules);
- (xii) seek to ensure effective and on-going communication between the issuer and its shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules;
- (xiii) report on the work of the corporate governance committee on at least a half-yearly and annual basis covering all areas of its terms of reference; and
- (xiv) disclose, on a comply or explain basis, its recommendations to the board in respect of matters in sub-paragraphs (ix) to (xi) above in the report referred to in sub-paragraph (xiii) above (Rule 8A.30 of the Listing Rules);

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- (27) The corporate governance committee must be comprised entirely of independent non-executive directors, one of whom must act as the chairman (Rule 8A.31 of the Listing Rules);
- (28) The Corporate Governance Report produced by a listed issuer with a WVR structure to comply with Appendix 14 to the Listing Rules must include a summary of the work of the corporate governance committee, with regards to its terms of reference, for the accounting period covered by both the half-yearly and annual report and disclose any significant subsequent events for the period up to the date of publication of the half-yearly and annual report, to the extent possible (Rule 8A.32 of the Listing Rules);
- (29) Rule 3A.19 of the Listing Rules is modified to require an issuer with a WVR structure to appoint a Compliance Adviser on a permanent basis commencing on the date of the issuer's initial listing (Rule 8A.33 of the Listing Rules);
- (30) An issuer must consult with and, if necessary, seek advice from its Compliance Adviser, on a timely and ongoing basis in the circumstances set out in Rule 3A.23 of the Listing Rules and also on any matters related to: (i) the WVR structure; (ii) transactions in which any beneficiary of weighted voting rights in the issuer has an interest; and (iii) where there is a potential conflict of interest between the issuer, a subsidiary of the issuer and/or holders of the issuer (considered as a group) on the one hand and any beneficiary of weighted voting rights in the issuer on the other (Rule 8A.34 of the Listing Rules);
- (31) An issuer with a WVR structure must comply with Section F "Shareholders Engagement" in Part 2 of Appendix 14 to the Listing Rules (Rule 8A.35 of the Listing Rules);
- (32) An issuer with a WVR structure must include the warning "*A company controlled through weighted voting rights*" on the front page of all its listing documents, periodic financial reports, circulars, notifications and announcements required by the Listing Rules, and describe its WVR structure, the issuer's rationale of such structure and the associated risks for the members prominently in its listing documents and periodic financial reports. This warning statement shall inform prospective investors of the potential risks of investing in an issuer with a WVR structure and that they should make the decision to invest only after due and careful consideration (Rule 8A.37 of the Listing Rules);
- (33) The documents of or evidencing title for the listed equity securities of an issuer with a WVR structure must prominently include the warning "*A company controlled through weighted voting rights*" (Rule 8A.38 of the Listing Rules);

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- (34) An issuer with a WVR structure must in its listing documents and its interim and annual reports: (i) identify the beneficiaries of weighted voting rights; (ii) disclose the impact of a potential conversion of WVR shares into ordinary shares on its share capital; and (iii) disclose all circumstances in which the weighted voting rights attached to the WVR shares shall cease (Rules 8A.39, 8A.40 and 8A.41 of the Listing Rules).

Under articles 88(f) and 88(h) of our existing Articles, Image Frame Investment (HK) Limited and Qiantang River Investment Limited (being entities affiliated with Tencent and defined in our existing Articles as “**Tencent Investors**”) are entitled to appoint and remove one director of the Company, subject to certain conditions. Further, pursuant to article 158 of our existing Articles, articles 88(f) and 88(h) of the Articles may not be amended without the prior written consent of the Tencent Investors. Other than such rights entitled to by Tencent Investors, the Company has not granted any other special rights to its other Shareholders. To comply with Rule 2.03(4) of the Listing Rule, which requires that all holders of listed securities be treated fairly and equally, and to reflect the full conversion of Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited upon Listing, Tencent Investors have provided consent in writing to terminate such special rights entitled by them upon the Listing and the Company will at the First GM put forth a resolution to remove such special rights of Tencent Investors from the Articles (“**Termination of Tencent’s Special Rights**”).

In addition, to further enhance its shareholder protection measures, the Company will at the First GM propose to its Shareholders the following amendments to its Articles: (a) lowering the quorum of general meeting (which is not a class meeting) from no less than one-third of all votes attaching to all shares in issue and entitled to vote at such general meeting in the Company as currently provided for under article 65 in the existing Articles to 10% of all votes attaching to all shares in issue and entitled to vote at such general meeting in the Company (on a one vote per share basis) (the “**Quorum Requirement**”); (b) where a general meeting is postponed by the directors pursuant to article 71 of the existing Articles, requiring such meeting to be postponed to a specific date, time and place (the “**GM Postponement Requirement**”); and (c) removing the Directors’ discretion to, for the purpose of variation of rights attached to any class of shares, 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 under article 17 of the existing Articles, as well as the Directors’ powers to authorize the division of Shares into any number of classes and to determine the relative rights and obligations as between the different classes and to issue such shares with preferred or other rights that may be greater than the rights of the Class A Ordinary Shares under article 9 of the existing Articles as well as making the Directors’ powers to issue preferred shares under article 9 of the existing Articles to be subject to the Articles, compliance with the Listing Rules and the Takeovers Code and the conditions that (x) no new class of shares with voting rights superior to those of Class A Ordinary Shares will be created and (y) any variations in the relative rights as between the different classes will not result in creating new class of shares with voting rights superior to those of Class A Ordinary Shares (“**Amendment of Directors’ Class Right Related Powers**”).

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At the First GM, the Company will also propose amendments to the Articles to clarify that the Company, its Shareholders, Directors and officers agree to submit to the jurisdiction of the courts of the Cayman Islands and Hong Kong, to the exclusion of other jurisdictions, to hear, settle and/or determine any dispute, controversy or claim whether arising out of or in connection with the Articles or otherwise. For the avoidance of doubt, the applicable rights of purchasers, holders, and sellers of the ADSs are not governed by the preceding sentence but are exclusively governed by the applicable deposit agreement pursuant to which the ADSs were issued, regardless of whether their dispute, controversy or claim arises out of or in connection with the Articles or otherwise (the “**Forum Selection Clarification**”, together with the Unmet Listing Rules Articles Requirements, the Termination of Tencent’s Special Rights, the Quorum Requirement, the GM Postponement Requirement, and the Amendment of Directors’ Class Right Related Powers, the “**Unmet Articles Requirements**”). For completeness, the Company, the DTC and holders and beneficial owners of the ADSs each agree that, with regard to any claim or dispute or difference of whatever nature between or involving the parties hereto arising directly or indirectly from the relationship created by the deposit agreement, the DTC, in its sole discretion, shall be entitled to refer such dispute or difference for final settlement by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in force. Judgment upon the award rendered by the arbitrators may be enforced in any court having jurisdiction thereof. The seat and place of any reference to arbitration shall be New York City, New York, and the procedural law of such arbitration shall be New York law. For the avoidance of doubt this does not preclude holders and beneficial owners of the ADSs from pursuing claims under the Securities Act or the Exchange Act in federal courts. Holders and beneficial owners of the ADSs each irrevocably agree that any legal suit, action or proceeding against or involving the Company or the DTC, arising out of or based upon the deposit agreement, ADSs, American Depositary Receipts or the transactions contemplated thereby or by virtue of ownership thereof, may only be instituted in a state or federal court in New York, New York and irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding.

As advised by the Company’s legal advisor as to Cayman Islands laws, the incorporation of the following Unmet Articles Requirements will require the following:

- (a) as the requirement as set out in paragraph 15 of Appendix 3 to the Listing Rules would materially adversely vary the rights attached to both Class B Ordinary Shares and Class A Ordinary Shares, respectively, a special resolution to incorporate such Unmet Articles Requirement into the Company’s Articles (the “**Dual Class-based Resolution**”) will need to be approved at separate class meetings of both holders of Class B Ordinary Shares (the “**Class B Meeting**”) and of Class A Ordinary Shares (the “**Class A Meeting**”) in accordance with the Company’s existing Articles. The quorum for separate class meetings is 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. The Dual Class-based Resolution requires approval of a special resolution by no less than two-thirds of the votes cast by the holders of issued Class

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B Ordinary Shares and approval of a special resolution by no less than two-thirds of the votes cast by the holders of issued Class A Ordinary Shares who attend and vote at the Class B Meeting and the Class A Meeting, respectively, pursuant to article 17 of the existing Articles.

- (b) as certain Unmet Articles Requirements, namely requirements as set out in Rules 8A.09, 8A.10, 8A.13, 8A.14, 8A.15, 8A.16, 8A.17, 8A.18(1), 8A.18(2), 8A.19, 8A.22 and 8A.24 of the Listing Rules, would materially adversely vary the rights attached to Class B Ordinary Shares only, a special resolution to incorporate these Unmet Articles Requirement into the Company's Articles (the "**Single Class-based Resolution**", together with Dual Class-based Resolution, the "**Class-based Resolutions**") will need to be approved by the requisite holders of Class B Ordinary Shares in Class B Meeting only in accordance with the Company's existing Articles. The quorum for Class B Meeting is one or more persons holding or representing by proxy at least one-third in nominal or par value amount of the issued Class B Ordinary Shares. The Single Class-based Resolution at the Class B Meeting requires approval of a special resolution by no less than two-thirds of the votes cast by the holders of issued Class B Ordinary Shares who attend and vote at the Class B Meeting pursuant to article 17 of the existing Articles.

The passing of the Single Class-based Resolution at the Class B Meeting, without separate approval, consent or sanction by the holders of Class A Ordinary Shares at the Class A Meeting, would constitute valid and effective authorization under the existing Articles for the incorporation of those Unmet Articles Requirements (which are the subject of the Single Class-based Resolution) into the Company's Articles, and such amendments (when duly incorporated into the Company's Articles by virtue of and pursuant to the Non-class-based Resolution (as defined below) to be passed at the Full Shareholders Meeting (as defined below)) will be valid and effective. Further, because the incorporation of such Unmet Articles Requirements (which are the subject of the Single Class-based Resolution) would not materially adversely vary the rights attached to Class A Ordinary Shares, no separate consent or sanction is required from the holders of Class A Ordinary Shares under the existing Articles, and no holder of Class A Ordinary Shares would be able to validly challenge the passing of the Single Class-based Resolution solely by the holders of Class B Ordinary Shares in the manner described above.

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- (c) if (i) the Dual Class-based Resolution is passed at both the Class B Meeting and Class A Meeting; and (ii) the Single Class-based Resolution is passed at Class B Meeting, at the full Shareholders' meeting where all Shareholders may vote as a single class (the "**Full Shareholders' Meeting**"), the Shareholders will be asked to vote on the Class-based Resolutions. In addition, the Shareholders will also be asked to vote on another resolution (the "**Non-class-based Resolution**") to incorporate into the Company's Articles those Unmet Articles Requirements which are not covered by the Class-based Resolutions, and the voting of the Non-class-based Resolution is not conditional on the passing of the Class-based Resolutions. If the Class-based Resolutions are not approved at either the Class B Meeting or Class A Meeting (as the case may be), then the Shareholders at the Full Shareholders' Meeting will only be asked to vote on the Non-class-based Resolution.

Notwithstanding that article 65 of the existing Articles provides the quorum for the Company's shareholders' meeting to be one or more members 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 present in person or by proxy, the quorum for the Full Shareholders' Meeting will comply with the Quorum Requirement, being 10% of all votes attaching to all shares in issue and entitled to vote at such general meeting in the Company (on a one vote per share basis), in light of the Undertaking for Interim Compliance (as defined below) to be given by the Company and the WVR Beneficiary.

At the Full Shareholders' Meeting, each of the Class-based Resolutions and the Non-class-based Resolution will require approval of a special resolution by not less than two-thirds of the votes cast by such Shareholders as, being entitled to do so, vote in person or by proxy or, in the case of corporations, by their duly authorized representatives at the Full Shareholders' Meeting, in accordance with article 158 of the existing Articles.

For the avoidance of doubt, weighted voting rights will apply in connection with passing the Class-based Resolutions and the Non-class based Resolution at the Full Shareholders' Meeting. In addition, the Termination of Tencent's Special Rights will require the prior written consent of the Tencent Investors, and Tencent Investors have irrevocably consent to the Company that such special rights entitled by Tencent Investors shall be terminated upon Listing, and the Company may amend the Articles to give effect to the Termination of Tencent's Special Rights.

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The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the Unmet Articles Requirements, subject to the conditions that:

- (1) at the First GM, the Company will put forth: (i) the Dual Class-based Resolution at the Class B Meeting and the Class A Meeting; (ii) the Single Class-based Resolution at the Class B Meeting; and (iii) the Class-based Resolutions (if adopted at the Class B Meeting and Class A Meeting (where applicable)) and the Non-class-based Resolution at the Full Shareholders' Meeting (together, the "**Proposed Resolutions**") to amend its Articles to comply with the Unmet Articles Requirements;
- (2) the Company will, prior to the Listing, irrevocably undertake to the Stock Exchange that if any of the Proposed Resolutions are not passed at the First GM, it will put forth the Proposed Resolutions that have not been passed at each subsequent annual general meeting until they are all approved by the Shareholders;
- (3) the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Company that:
 - (i) he will be present (whether in person or by proxy), and where any Share is held by intermediaries held or controlled by him, will procure such intermediaries to be present (whether in person or by proxy) at the Class A Meeting, the Class B Meeting and/or the Full Shareholders Meeting (as the case may be), and to vote in favor of the Proposed Resolutions;
 - (ii) he will be present at the First GM (whether in person or by proxy) and any general meeting that may be convened after the Listing and before the First GM, and to vote in favor of the Proposed Resolutions; and
 - (iii) if any of the Proposed Resolutions are not passed at the First GM, until they are all approved, he or the said intermediaries will continue to be present (whether in person or by proxy) and vote in favor of such Proposed Resolutions at each subsequent class meeting of the holders of the Class A Ordinary Shares, class meeting of the holders of the Class B Ordinary Shares, and/or general meeting (as the case may be) at which the Company puts forth such Proposed Resolutions;

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- (4) Tencent (together with the WVR Beneficiary, the “**Undertaking Shareholders**”) will, prior to the Listing, irrevocably undertake to the Company to, and if any Class A Ordinary Share is held by intermediaries held or controlled by him/it, procure such intermediaries to be present at the Class A Meeting and the Full Shareholders’ Meeting (whether in person or by proxy) and to vote in favor of the Proposed Resolutions and that, if any of the Proposed Resolutions are not passed at the First GM, until they are all approved, it or he or the said intermediaries will continue to attend (whether in person or by proxy) each subsequent class meeting of the holders of the Class A Ordinary Shares and general meeting at which the Company puts forth the Proposed Resolutions and vote in favor of such Proposed Resolutions;
- (5) the Company will issue a press release announcing its support publicly for the Proposed Resolutions each year after the Listing until all the Proposed Resolutions are adopted;
- (6) the Company and the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Stock Exchange that it or he will comply with the Unmet Articles Requirements in full (the “**Undertaking for Interim Compliance**”) upon the Listing and before its existing Articles are formally amended to incorporate the Unmet Articles Requirements, except for:
 - (i) paragraph 15 of Appendix 3 to the Listing Rules such that, prior to the Articles being amended, the threshold for passing a resolution in a separate class meeting will be approval of a special resolution by no less than two-thirds of the votes cast by the issued shares of that class pursuant to article 17 of the existing Articles;
 - (ii) Rules 8A.24(1) and (2) of the Listing Rules such that, prior to the Articles being amended, weighted voting rights will apply in connection with passing the Proposed Resolutions; and
 - (iii) paragraph 16 of Appendix 3 to the Listing Rules such that, prior to the Articles being amended, the threshold for passing a special resolution for amendments to the Company’s Articles will be approved by members holding not less than two-thirds of the voting rights of those present and voting in person or by proxy at the general meeting in accordance with article 158 of the Company’s existing Articles.

For the avoidance of doubt, the above exceptions are only applicable to the passing of the Proposed Resolutions, and the Company shall irrevocably undertake to the Stock Exchange to comply with paragraphs 15 and 16 of Appendix 3 to and Rules 8A.24(1) and (2) of the Listing Rules for passing any resolution at a separate class meeting and any special resolution after the Listing (other than the Proposed

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Resolutions) under the Undertaking for Interim Compliance, and if any of the Class-based Resolution is not passed at the First GM, the Undertaking for Interim Compliance will remain valid until the Class-based Resolution is passed;

- (7) the WVR Beneficiary will, prior to the Listing, irrevocably undertake to the Company and the Stock Exchange that:
- (i) he will procure the Company to give effect to the Undertaking for Interim Compliance upon the Listing and before its existing Articles are formally amended;
 - (ii) in the event any Class B Ordinary Share is to be transferred to an affiliate (as defined in the Articles) of the WVR Beneficiary that is not a director holding vehicle after the Listing but before the existing Articles are formally amended, he will convert such Class B Ordinary Shares into Class A Ordinary Shares by delivering a written notice to the Company in accordance with the Articles and only transfer the resultant Class A Ordinary Shares to such affiliate;
 - (iii) after the Listing but before the existing Articles are formally amended, he will not effect any change in his holding structure of any Class B Ordinary Shares unless and until the Stock Exchange has approved such change; and
 - (iv) he will procure each of Lera Ultimate Limited and Lera Infinity Limited to, prior to the Listing, deliver a written conversion notice to the Company in accordance with article 13 of the existing Articles that all of the Class B Ordinary Shares it holds shall be converted to Class A Ordinary Shares on a one-for-one basis immediately upon any event listed in Rule 8A.17 of the Listing Rules occurring after the Listing and before the Articles are formally amended. Such conversion notice shall expire immediately upon the Articles are formally amended.

A director holding vehicle, for the purpose of the above paragraph, means (a) a partnership of which the WVR Beneficiary is a partner and the terms of which must expressly specify that the voting rights attached to any and all of the Class B Ordinary Shares held by such partnership are solely dictated by the WVR Beneficiary; (b) a trust of which the WVR Beneficiary is a beneficiary and that meets the following conditions: (i) the WVR Beneficiary must in substance retain an element of control of the trust and any immediate holding companies of, or, if not permitted in the relevant tax jurisdiction, retain a beneficial interest in any and all of the Class B Ordinary Shares held by such trust; and (ii) the purpose of the trust must be for estate planning and/or tax planning purposes; or (c) a private company or other vehicle wholly-owned and wholly controlled by the WVR Beneficiary or by a trust referred to in paragraph (b) above;

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- (8) if any holders of any ADSs fail to give valid or timely voting instructions to the DTC with respect of the Proposed Resolutions, the Company will exercise any discretionary proxy it may have under the deposit agreement for the ADSs to vote the underlying Class A Ordinary Shares represented by such ADSs in favor of the Proposed Resolutions at any general meetings; and
- (9) the Company remains listed on the Nasdaq.

The Company's legal advisor as to the laws of the Cayman Islands confirms that the Undertaking for Interim Compliance will not violate the laws and regulations of the Cayman Islands, and the Company confirms that, having consulted its other legal advisors, the Undertaking for Interim Compliance will also not violate other laws and regulations applicable to the Company.

The WVR Beneficiary acknowledged and agreed that our Shareholders may rely on the WVR Beneficiary's undertakings described in paragraphs (3), (6) and (7) above (the "**WVR Beneficiary's Articles Undertaking**") in acquiring and holding their Shares and that such undertakings are intended to confer a benefit on the Company and all existing and future Shareholders and may be enforced by the Company and/or any such Shareholder against the WVR Beneficiary.

The WVR Beneficiary's Articles Undertaking shall automatically terminate upon the earliest of (i) the date on which the proposed amendments to the Articles described in this sub-section headed "— Requirements relating to the Articles of Association of the Company" have become effective; (ii) the date of delisting of the Company from the Stock Exchange; and (iii) the date on which the WVR Beneficiary ceases to be a beneficiary of weighted voting rights in the Company. For the avoidance of doubt, the termination of the WVR Beneficiary's Articles Undertaking shall not affect any rights, remedies, obligations or liabilities of the Company and/or any Shareholder and/or the WVR Beneficiary himself that have accrued up to the date of termination, including the right to claim damages and/or apply for any injunction in respect of any breach of the WVR Beneficiary's Articles Undertaking which existed at or before the date of termination. The WVR Beneficiary's Articles Undertaking shall be governed by the laws of Hong Kong and all matters, claims or disputes arising out of the WVR Beneficiary's Articles Undertaking shall be subject to the exclusive jurisdiction of the courts of Hong Kong.

Assuming (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date and (ii) all Class B Ordinary Shares beneficially held by Tencent Group through Qiantang River Investment Limited have been converted to Class A Ordinary Shares, the Undertaking Shareholders (namely, the WVR Beneficiary and Tencent) will, immediately upon the Listing, beneficially own 239,750,000 Class B Ordinary Shares and 411,505,230 Class A Ordinary Shares (including any Class A Ordinary Shares underlying any ADSs they held) respectively, representing in aggregate (a) approximately 47.07% of the total issued Class A Ordinary Shares and approximately 47.07% of the total voting rights of the Class A Ordinary Shares voting as a separate class, (b) 100% of the total

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issued Class B Ordinary Shares and 100% of the total voting rights of the Class B Ordinary Shares voting as a separate class, and (c) approximately 85.85% of the voting rights in the Company (on weighted voting rights basis). Assuming (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, (ii) all Class B Ordinary Shares beneficially held by Tencent Group through Qiantang River Investment Limited have been converted to Class A Ordinary Shares and there are no changes to the number of Class A Ordinary Shares held by the depositary between the Latest Practicable Date and the Listing Date, to the best knowledge of the Company, the depositary will, immediately upon the Listing, hold a total of 461,695,904 Class A Ordinary Shares underlying the ADSs (excluding those represented by the ADSs held by the Undertaking Shareholders deposited with the depositary, which have already been counted in the foregoing and the Class A Ordinary Shares issued to our depositary bank for bulk issuance of ADS and reserved for future issuance under the Share Incentive Plans), representing (x) approximately 52.81% of the total issued Class A Ordinary Shares and approximately 52.81% of the total voting rights of the Class A Ordinary Shares voting as a separate class and (y) approximately 14.11% of the voting rights in the Company (on weighted voting rights basis). Despite the undertaking given by the Undertaking Shareholders (being the WVR Beneficiary and Tencent) to vote in favour of the relevant Proposed Resolutions to ensure that they will be adopted at the Class B Meeting and the Full Shareholders' Meeting, there is no guarantee that the Dual Class-based Resolution (being the resolution to incorporate requirements under paragraph 15 of Appendix 3 to the Listing Rules) will be passed at the Class A Meeting. As the Company has not, since its listing on the Nasdaq, held a general meeting, it is uncertain as to whether the Dual Class-based Resolution will be approved with sufficient support from our shareholders at the Class A Meeting.

For the avoidance of doubt, even though article 17 of the existing Articles provides that the rights attached to any such class of Shares may, subject to any rights or restrictions for the time being attached to any class of Shares, only be materially adversely varied either (a) with the consent in writing of the holders of two-thirds of all of the issued Shares of that class or (b) with the sanction of a special resolution passed at a separate meeting of the holders of the Shares of that class, the Company expects to adopt the approach in (b) rather than in (a) to seek the relevant shareholders' approval for the Class-based Resolutions at a general meeting. Also, even though under the existing Articles a special resolution can be (x) 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 authorized representatives, at a general meeting of the Company, or (y) 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, the Company expects to adopt the approach in (x) rather than in (y) to seek the shareholders' approval for the Class-based Resolution and the Non-class-based Resolution at a general meeting. This is because, as a public company, it would involve heavy administrative work for the Company and will be practically impossible for the Company to collect written consents from a sufficiently large number of its public shareholders.

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After the Listing, the Company will in its annual reports confirm whether it has, in the preceding financial year, complied with the Corporate Governance Code set out in Appendix 14 to the Listing Rules to the extent required by Chapter 8A of the Listing Rules.

In the event of any failure to adhere to the requirements of Chapter 8A of the Listing Rules as determined by the Stock Exchange, the Stock Exchange may, as it considers necessary for the protection of the investors or the maintenance of an orderly market and in addition to any other action that the Stock Exchange considers appropriate under the Listing Rules, exercise absolute discretion to:

- (1) direct a trading halt or suspend dealings of any securities of the Company or cancel the listing of any securities of the Company as set out in Rule 6.01 of the Listing Rules;
- (2) impose the disciplinary sanctions set out in Rule 2A.09 of the Listing Rules against the parties set out in Rule 2A.10 of the Listing Rules;
- (3) withhold (a) approval for an application for the listing of securities; and/or (b) clearance for the issuance of a circular to the Company's shareholders unless and until all necessary steps have been taken to address the non-compliance as directed by the Stock Exchange to its satisfaction.

USE OF U.S. GAAP

Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules require the Company to prepare its financial statements in the listing document and the subsequent financial reports issued after listing to be in conformity with: (a) Hong Kong Financial Reporting Standards (“**HKFRS**”); (b) IFRS; or (c) China Accounting Standards for Business Enterprises in the case of companies incorporated in China. Rule 19.12 of the Listing Rules requires an accountant's report of an overseas issuer to have been audited to a standard comparable to that required in Hong Kong. Rule 19.13 of the Listing Rules states that accountants' reports are required to conform to financial reporting standards acceptable to the Stock Exchange, which are normally HKFRS or IFRS. Rule 19.14 of the Listing Rules states that where the Stock Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, the report will be required to conform with accounting standards acceptable to the Stock Exchange. In such cases, the Stock Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) from either of the above accounting standards. Rule 19.25A of the Listing Rules states that the annual accounts are required to conform with financial reporting standards acceptable to the Stock Exchange, which are normally HKFRS or IFRS. Where the Stock Exchange allows annual accounts to be drawn up otherwise than in conformity with HKFRS or IFRS, the annual accounts will be required to conform with financial reporting standards acceptable to the Stock Exchange. In such cases the Stock Exchange will normally require the annual accounts to contain a reconciliation statement setting out the financial effect of the material differences (if any) from either HKFRS or IFRS.

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As a company listed on the Nasdaq, our Company has been using U.S. GAAP and the corresponding auditing standards for the filing of its financial statements with the U.S. Securities and Exchange Commission as determined by the U.S. Public Company Accounting Oversight Board. U.S. GAAP is well recognized and accepted by the international investment community, and significant progress has been made in the convergence between U.S. GAAP and IFRS. In addition, we note that it might lead to confusion among the Company's investors and shareholders if the Company was required to adopt different accounting standards for its disclosures in Hong Kong from those in the U.S. Aligning the accounting standards used for disclosures in both markets will alleviate any such confusion. Adoption of U.S. GAAP for the preparation of its financial statements will also allow the potential investors and shareholders of our Company to compare the results of the Group against our peers listed in overseas stock markets which use U.S. GAAP for the preparation of their financial statements more easily.

Our Company has applied to the Hong Kong Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19.13 and 19.25A of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules to allow the financial statements and accountant's report in the listing document to be prepared based on U.S. GAAP, subject to the following conditions:

- (i) the Company will include adequate disclosure, including (a) a description of the relevant key differences between U.S. GAAP and IFRS; and (b) a statement showing the financial effect of any material differences between the financial statements during the track record period prepared using U.S. GAAP and IFRS (the "**Reconciliation Statement**") in the Company's accountant's report of the listing document and annual reports after the Proposed Listing, and such Reconciliation Statements will be included as a note to the audited accountant's report or audited financial statements in the annual report;
- (ii) the Company will include a Reconciliation Statement in the Company's interim reports after the Listing; such Reconciliation Statement will be included as a note to the reviewed financial statements in the interim reports. Where the relevant financial statements are not reviewed by its auditors, the Reconciliation Statement required to be included as a note to such financial statements should be reviewed by its auditors in accordance with a standard comparable to International Standard on Assurance Engagements 3000 or Hong Kong Standard on Assurance Engagements 3000;
- (iii) if the Company is no longer listed in the U.S. or is not obliged to make financial disclosure in the U.S., the Company will adopt either HKFRS or IFRS in the preparation of the Company's financial statements; and
- (iv) the Company will comply with Rule 4.08, 19.12, 19.14 of, and note 2.6 to paragraph 2 of Appendix 16 to the Listing Rules.

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DEALINGS IN SHARES PRIOR TO LISTING

According to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

As a company listed on the Nasdaq, the Company has a diverse shareholder base with the ADSs are widely held and publicly traded. The Company considers that it is therefore not in a position to control the investment decisions of its shareholders or the investing public in the U.S.

Solely based on public filings with the SEC as of the Latest Practicable Date, there are two shareholders who hold more than 10% of the total issued share capital of the Company, being:

- (a) Mr. Li, the founder, chairman and chief executive officer of the Company that is deemed to be the beneficial owner of (i) 100,000,000 Class A Ordinary Shares held by Lera Ultimate Limited, (ii) 64,000,000 Class A Ordinary Shares held by Lera Infinity Limited (iii) 86,568 Class A Ordinary Shares held by Mr. Li, (iv) 202,812,500 Class B Ordinary Shares held by Lera Ultimate Limited and (v) 36,937,500 Class B Ordinary Shares held by Lera Infinity Limited, which in the aggregate represents approximately 36.2% of the total issued share capital of the Company and approximately 59.4% of the voting power of the total issued and outstanding share capital of the Company; and
- (b) Tencent Group is deemed to be the beneficial owner of (i) 71,024,142 Class A Ordinary Shares held by Image Frame Investment (HK) Limited; (ii) 28,840,949 Class A Ordinary Shares and 140,802,051 Class B Ordinary Shares held by Qiantang River Investment Limited; (iii) 1,161,840 Class A Ordinary Shares represented by 145,230 ADSs held of record by TPP Opportunity GP I, Ltd.; (iv) 5,412,888 Class A Ordinary Shares represented by 676,611 ADSs held of record by Tencent Mobility Limited; and (v) 176,792 Class A Ordinary Shares represented by 22,099 ADSs held of record by Distribution Pool Limited, which in the aggregate represents approximately 22.2% of the total issued share capital of the Company and approximately 35.0% of the voting power of the total issued and outstanding share capital of the Company as of the Latest Practicable Date.

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For a company whose securities are listed and traded in the U.S., the Company notes that it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act (the “**Rule 10b5-1 Plan(s)**”) to buy or sell the company’s securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when, or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

On the basis of the above, the Company considers that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) Mr. Li (the Company’s Controlling Shareholder, founder, chairman of the Board, executive Director, and chief executive officer), Tencent Group and their respective close associates in respect of his or their dealings (as the case may be) pursuant to any Rule 10b5-1 Plans that have been set up prior to the Relevant Period (“**Category 1**”);
- (b) the Company’s Directors (other than Mr. Li), and the directors and chief executives of its significant subsidiaries and Consolidated Affiliated Entities (that are, subsidiaries and Consolidated Affiliated Entities that are not “insignificant subsidiaries” as defined under the Listing Rules, “**Significant Subsidiaries**”), in respect of (i) their respective use of the Shares as security (including, for the avoidance of doubt, using their respective Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period and (ii) their respective dealings pursuant to Rule 10b5-1 Plans that have been set up prior to the Relevant Period (“**Category 2**”);
- (c) directors, chief executives and substantial shareholders of the Company’s insignificant subsidiaries (as defined under the Listing Rules) and their close associates (“**Category 3**”); and
- (d) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become the Company’s substantial shareholder and who is not its director or chief executive, or a director or chief executive of the Company’s subsidiaries and Consolidated Affiliated Entities, or their close associates (“**Category 4**”).

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For the avoidance of doubt:

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Listing Rules; and
- (b) persons in Category 1 and Category 2 who (i) use their respective Shares other than as described in this section headed “Dealings in Shares prior to Listing” or (ii) who are not dealing in the Company’s securities according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restrictions under Rule 9.09(b) of the Listing Rules.

Mr. Li, our Controlling Shareholder, founder, chairman of the Board, executive Director and chief executive officer, may pledge the Shares that he beneficially owns as security (including charges and pledges) in connection with financing activities. As at the Latest Practicable Date, 50,000,000 Class A Ordinary Shares held by Lera Ultimate Limited (in which Mr. Li is deemed to be the beneficial owner) had been pledged as security. Save as disclosed above, to the best knowledge and information of the Company, as at the Latest Practicable Date, none of the Categories 1 and 2 of the Permitted Persons had pledged their respective Shares as security.

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Listing Rules to be granted on the following conditions:

- (a) Categories 1 and 2 of the Permitted Persons who entered into Rule 10b5-1 Plans have no discretion over dealings in the ADSs after the plans have been entered into. Where Categories 1 and 2 of the Permitted Persons use the Shares as security, other than those set out in the waiver above, there will be no change in the beneficial ownership of the Shares at the time of entering into the relevant transactions during the Relevant Period;
- (b) Categories 3 and 4 of the Permitted Persons do not have any influence over the Introduction and do not possess any non-public inside information of the Company given that such persons are not in a position with access to information that is considered material to the Company taken as a whole. Given the large number of the Company’s subsidiaries and Consolidated Affiliated Entities and the vast ADS holder base, the Company and its management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in the ADSs;

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- (c) the Company will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which the Company is aware and will not have any influence over the Introduction;
- (d) the Company will notify the Stock Exchange of any breaches of the dealing restrictions by any of its core connected persons during the Relevant Period when it becomes aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (e) prior to the Listing Date, other than within the permitted scopes set out above, the Company's Directors and chief executive and the directors and chief executives of its Significant Subsidiaries and their respective close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such dealing restrictions in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under the Group's share incentive plans.

The Company believes that the circumstances relating to this waiver align with those set out in the Stock Exchange's Guidance Letter HKEX-GL42-12 and the grant of this waiver will not prejudice the interests of potential investors.

WAIVER IN RELATION TO THE 2014 PLAN AND 2019 PLAN

The Listing Rules prescribes certain disclosure requirements in relation to the share options granted by the Company (the "**Share Option Disclosure Requirements**"):

- (a) Rule 17.02(1)(b) of the Listing Rules stipulates that all the terms of a scheme must be clearly set out in this document. The Company is also required to disclose in this document full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options.
- (b) Paragraph 27 of Appendix 1A to the Listing Rules requires the Company to set out in this document particulars of any capital of any member of the Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.

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As of the Latest Practicable Date, our Company had granted outstanding options under the 2014 Plan and the 2019 Plan (the “**Relevant Plans**”) to 241 grantees (including a connected person of the Company and other employees of our Group), to subscribe for an aggregate of 10,386,058 Class A Ordinary Shares. As of the Latest Practicable Date, among the outstanding options, 1,000,000 were held by a connected person of the Company in his capacity as director of our material subsidiaries, and 9,386,058 were held by employees of our Group (who are not Directors or connected persons of the Company). The Class A Ordinary Shares underlying such outstanding options granted represent approximately 0.93% of the total number of Shares in issue immediately after completion of the Introduction (assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date). For further details of our Share Incentive Plans, see the section headed “Statutory and General Information — D. Share Incentive Plans” in Appendix IV to this document.

We have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules in connection with the disclosure of certain details relating to the options and certain grantees in this document on the ground that the waiver and the exemption will not prejudice the interest of the investing public and strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons, among others:

- (a) as of the Latest Practicable Date, we had granted outstanding options to a total of 241 grantees under the Relevant Plans to acquire an aggregate of 10,386,058 Class A Ordinary Shares, representing approximately 0.93% of the total number of Shares in issue immediately after completion of the Introduction (assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date). The grantees under the Relevant Plans include one connected person of the Company in his capacity as director of our material subsidiaries, and 240 employees of our Group (who are not Directors or connected persons of our Company);
- (b) our Directors consider that it would be unduly burdensome to disclose in the listing document full details of all the options granted by us to each of the grantees, which would significantly increase the cost and time required for information compilation and prospectus preparation of this document for strict compliance with such disclosure requirements. For example, we would need to collect and verify the addresses of over 240 grantees to meet the disclosure requirement. Further, the disclosure of the personal details of each grantee, including their names, addresses and the number of options granted, may require obtaining consent from the grantees in order to comply with personal data privacy laws and principles and it would be unduly burdensome for our Company to obtain such consents given the number of grantees;

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- (c) material information on the options has been disclosed in this document to provide prospective investors with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the options in making their investment decision, and such information includes: (i) a summary of the latest terms of the Relevant Plans; (ii) the aggregate number of Class A Ordinary Shares subject to the options and the percentage of our Shares of which such number represents; (iii) the dilutive effect and the impact on earnings per Share upon full exercise of the options immediately following completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date); (iv) full details of the options granted to connected persons (if any) of our Company, on an individual basis, are disclosed in this document, and such details include all the particulars required under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules; (v) with respect to the options granted to other grantees (other than those referred to in (iv) above), the following details will be disclosed in this document, including the aggregate number of such grantees and the number of Class A Ordinary Shares subject to the options, the consideration paid for the grant of the options and the exercise period and the exercise price for the options; and (vi) the particulars of the waiver and exemption granted by the Stock Exchange. The above disclosure is consistent with the conditions ordinarily expected by the Stock Exchange in similar circumstances as set out in Guidance Letter HKEX-GL11-09 issued in July 2009 and updated in March 2014 by the Stock Exchange;
- (d) the 240 grantees who are not Directors, or connected persons of the Company, have been granted options under the Relevant Plans to acquire an aggregate of 9,386,058 Class A Ordinary Shares, which is not material in the circumstances of our Company, and the exercise in full of such options will not cause any material adverse change in the financial position of our Company;
- (e) our Directors consider that non-compliance with the above disclosure requirements would not prevent our Company from providing potential investors with sufficient information for an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Group. Strict adherence to the disclosure requirements, including to disclose the names, addresses, and entitlements on an individual basis of over 240 grantees without reflecting the materiality of the information does not provide any additional meaningful information to the investing public; and
- (f) a full list of all the grantees containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules will be made available for public inspection at the Company's principal place of business in Hong Kong at 11/F, Bangkok Bank Building, No. 18 Bonham Strand West, Sheung Wan, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document.

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In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application and the non-disclosure of the required information will not prejudice the interests of the investing public.

The Stock Exchange has granted to our Company a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules with respect to the options granted under the Relevant Plans on the condition that:

- (a) on an individual basis, full details of the outstanding options granted under the Relevant Plans to each of the Directors and connected persons (if any) of the Company, will be disclosed in the section headed “Appendix IV — Statutory and General Information — D. Share Incentive Plans” as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules;
- (b) in respect of the outstanding options granted under the Relevant Plans to other grantees (other than those set out in (a) above), disclosure will be made on an aggregate basis, including (1) the aggregate number of the grantees other than those set out in (a) above and the number of Shares subject to the outstanding options granted to them under the Relevant Plans, (2) the consideration paid for the grant of the outstanding options under the Relevant Plans, and (3) the exercise period and the exercise price for the outstanding options granted under the Relevant Plans;
- (c) the aggregate number of Class A Ordinary Shares underlying the outstanding options granted under the Relevant Plans and the percentage of the Company’s total issued share capital represented by such number of Shares as of the Latest Practicable Date will be disclosed in this document;
- (d) the dilutive effect and impact on earnings per Share upon the full exercise of the outstanding options under the Relevant Plans will be disclosed in the section headed “Appendix IV — Statutory and General Information — D. Share Incentive Plans”;
- (e) a summary of the major terms of the Relevant Plans will be disclosed in the section headed “Appendix IV — Statutory and General Information — D. Share Incentive Plans”;
- (f) the particulars of this waiver will be disclosed in this document;
- (g) a list of all the grantees (including those persons whose details have already been disclosed) containing all the particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules will be made available for public inspection in the section headed “Appendix V — Documents Available on Display.”

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EXERCISE PRICE OF OPTIONS TO BE GRANTED PURSUANT TO THE 2014 PLAN AND THE 2019 PLAN AFTER THE LISTING

Note (1) to Rule 17.03(9) of the Listing Rules states that the exercise price of an option must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

Since the ADSs, representing our Class A Ordinary Shares, were listed on the Nasdaq in March 2019, it has been the Company's practice to issue options exercisable into ADSs (each of which represents eight underlying Class A Ordinary Shares) under the 2014 Plan and the 2019 Plan and the Company will continue to issue options exercisable into ADSs after the Listing. By definition, ADSs are denominated in U.S. dollars, and the exercise price for options with respect to ADSs will necessarily be presented in U.S. dollars. Pursuant to the waiver from strict compliance with Rules 4.10 and 4.11 of, and Note 2.1 to Paragraph 2 of Appendix 16 to the Listing Rules described under the sub-section headed "— Use of U.S. GAAP" above, the Company will continue to prepare its accounts based on U.S. GAAP after the Listing in line with its established practice of granting options with exercise prices and RSUs with grant values denominated in U.S. dollars and tied to the market price of its Nasdaq-traded ADSs.

On the basis that (a) the method for determining the exercise price of the options based on the market price of ADSs substantially replicates the requirement in Note (1) to Rule 17.03(9) of the Listing Rules, and (b) it has been the Company's practice to issue options exercisable into ADSs with exercise prices denominated in U.S. dollars, and the Company will continue to grant options under the 2014 Plan and the 2019 Plan with exercise prices based on the market price of the ADSs which are denominated in U.S. dollars after the Listing, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules such that the Company will be able to determine the exercise price for options granted or to be granted under its Share Incentive Plans based on the higher of: (i) the per-share closing price of the ADSs on the Nasdaq on the date of grant, which must be a Nasdaq trading day; and (ii) the average per-share closing price of the ADSs on the Nasdaq for the five Nasdaq trading days immediately preceding the date of grant, subject to the condition that the Company shall not issue any share options with an exercise price denominated in Hong Kong dollars unless such exercise price complies with Note (1) to Rule 17.03(9) of the Listing Rules.

ACQUISITION AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountant's report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

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Since June 30, 2022 (the date to which our Company's latest audited accounts will have been made up in this document), our Company has made the following acquisition, the details of which are set out below:

Company A

In November 2021, the Company entered into a definitive agreement with the then owners of Company A, pursuant to which the Company proposed to acquire 85% interest in Company A for a consideration of approximately HK\$18 million (the "**Acquisition**"). The consideration is determined based on arm's length negotiations between the then owners of Company A and the Company, taking into account a number of factors including the potential strategic alliance in the relevant businesses. The Company used its internal resources to satisfy the cash consideration.

Company A, is primarily engaged in financial service business. The Company believes that the Acquisition is complementary to our Group's principal businesses. The Acquisition has completed in November 2022. The Company believes that the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole. To the Company's best knowledge, information and belief, having made all reasonable enquiries, Company A and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

We have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in respect of the Acquisition on the following grounds:

(a) The percentage ratios of the Acquisition are all less than 5% by reference to the most recent financial year of the Track Record Period:

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules of the Acquisition are all significantly less than 5% by reference to the most recent financial year of the Track Record Period.

Accordingly, the Company believes that the Acquisition is immaterial and does not expect the Acquisition to result in any significant changes to its financial position since June 30, 2022, and all information that is reasonably necessary for potential investors to make an informed assessment of its activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would not prejudice the interests of the investors.

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(b) The historical financial information of Company A fulfilling the disclosure requirement under Rule 4.04 of the Listing Rules would be unduly burdensome to obtain or prepare:

The Acquisition was only completed in November 2022, and the Company did not have full access to the books and records of Company A until then. It would require considerable time and resources for the Company and its reporting accountant to fully familiarize themselves with the management accounting policies of Company A, and compile the necessary financial information and supporting documents for the disclosure in this document. As such, we believe it would be impracticable and unduly burdensome within the tight timeframe for us to disclose the audited financial information of Company A in accordance with the U.S. GAAP in this document as required under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules.

In addition, having considered the Acquisition to be immaterial and that the Company does not expect the Acquisition to have any material effect on its business, financial condition or operations, the Company believes that it would not be meaningful and would be unduly burdensome for it to prepare and include the financial information of Company A during the Track Record Period in accordance with U.S. GAAP in this document. As the Company does not expect the Acquisition to result in any material changes to its financial position after the Track Record Period, the Company does not believe that the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would prejudice the interests of the investors.

(c) Alternative disclosure of the Acquisition in the listing document:

The Company has disclosed alternative information about the Acquisition in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Listing Rules that the Company's Directors consider to be material, including, for example, descriptions of the principal business activities, the expected investment amounts, and a statement as to whether the core connected persons at the level of the Company is a controlling shareholder of Company A. Further, the Acquisition was not required to be disclosed in the U.S. market pursuant to the applicable U.S. laws and regulations (including applicable listing rules). The Company has however excluded disclosure on the name of Company A in this document. The Company considers that in light of the competitive nature of the industry in which the Company operates, it is commercially sensitive to disclose the identity of Company A as such information may enable the Company's competitors to anticipate the Company's investment strategy and business expansion plan. Since each of the relevant percentage ratios of the Acquisition is less than 5% by reference to the most recent financial year of the Track Record Period, the Company does not expect the Acquisition to result in any material changes to its financial position after the Track Record Period. As such, the Company does not believe that the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would prejudice the interests of the investors, and believes the current disclosure is adequate for potential investors to form an informed assessment of the Company.

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DISCLOSURE REQUIREMENTS WITH RESPECT TO CHANGES IN SHARE CAPITAL

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of paragraph 26 of Part A of Appendix 1 to the Listing Rules in respect of disclosing the particulars of any alterations in the capital of any member of the Group within two years immediately preceding the issue of this document.

We have identified ten entities that we consider are our major subsidiaries and Consolidated Affiliated Entities primarily responsible for the track record results of our Group (the “**Principal Entities**,” and each a “**Principal Entity**”). For further details, see “History and Corporate Structure — Our Major Subsidiaries and Consolidated Affiliated Entities.” Globally, our Group has approximately 32 subsidiaries and Consolidated Affiliated Entities, across six different jurisdictions. It would be unduly burdensome for our Company to disclose information relating to the change of share capital of all of its subsidiaries and Consolidated Affiliated Entities, which would not be material or meaningful to investors. By way of illustration, (a) for the three years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate revenue of the Principal Entities represented approximately 97.8%, 99.0%, 98.9% and 97.7% of the Group’s total revenues, respectively; and (b) as of December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate assets of the Principal Entities represented approximately 99.2%, 99.8%, 98.1% and 97.6% of the Group’s total assets, respectively. Accordingly, the remaining subsidiaries and Consolidated Affiliated Entities in our Group are not significant to the overall operations and financial results of the Group. Additionally, our non-Principal Entities do not hold major or material assets (save for passive financial products and equity investments of the Group), intellectual property rights or other major proprietary technologies or major research and development functions of the Group.

Particulars of the changes in the share capital of the Company and the Principal Entities have been disclosed in “Statutory and General Information — A. Further Information about our Group — 2. Changes in share capital of our Company” and “Statutory and General Information — A. Further Information about our Group — 3. Changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities” in Appendix IV to this document.

WAIVER IN RELATION TO SHARE ISSUANCE WITHIN SIX MONTHS FROM THE LISTING DATE

Rule 10.08 of the Listing Rules provides that no further shares or securities convertible into equity securities of a listed issuer may be issued or form the subject of any agreement to such an issue within six months from the date on which securities of the listed issuer first commence dealings on the Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing) except for the circumstances more particularly stated in the Listing Rules.

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The Company has been listed on the Nasdaq for more than 12 months. The Company will not raise any new funds pursuant to the Introduction, thus the Shareholders would not suffer any dilution of their interests in the Company as a result of the Introduction. However, it is essential for the Company to have flexibility in raising funds by way of further issue of new Shares or entering into further acquisitions for share consideration should an appropriate opportunity arise. In addition, the Company considers that any issue of new Shares by the Company will enhance the Shareholders' base and increase the trading liquidity of the Shares. The interests of the existing Shareholders and prospective investors would be prejudicial if the Company could not raise funds for its business development or expansion due to the restrictions under Rule 10.08 of the Listing Rules.

Therefore, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 10.08 of the Listing Rules on the conditions that:

- (a) any further issue of new Class A Ordinary Shares will be (i) made under a general mandate or (ii) subject to the Shareholders' approval as required under Rule 13.36 of the Listing Rules with the total number of Class A Ordinary Shares that are issued or may be issued not exceeding 20% of the total number of Class A Ordinary Shares in issue as at the Listing Date. Upon the completion of any issuance(s) within six months after the Listing Date, the aggregate voting power of the Controlling Shareholders in the Company would be no less than 74.32%;
- (b) the dilution of the Controlling Shareholders' interest resulting from any issue of new Class A Ordinary Shares will not result in the Controlling Shareholders ceasing to be Controlling Shareholders within 12 months after the Listing Date in compliance with Rule 10.07(1) of the Listing Rules; and
- (c) any issue of Class A Ordinary Shares by the Company within the first six months from the Listing Date must be either (i) for consideration to fund a specific acquisition of assets or business that will contribute to the growth of the Group's operation or for full or partial settlement of the consideration for such acquisition; or (ii) pursuant to a general mandate approved by our Shareholders for the issue of further Class A Ordinary Shares as disclosed in this document.

Solely for illustration purpose, assuming a maximum issue of 20% of the total number of Class A Ordinary Shares in issue as at the Listing Date, the Controlling Shareholders are expected to control approximately 74.32% of the total voting power in the Company immediately upon the completion of such issue.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

NO CHANGE IN THE NATURE OF OUR BUSINESS

No change in the nature of our business is contemplated immediately following the Introduction.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue; (ii) the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans; and (iii) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on a one to one basis.

Dealings in the Class A Ordinary Shares on the Stock Exchange are expected to commence on Friday, December 30, 2022. The ADSs are currently listed on and dealt in the Nasdaq. Other than the foregoing, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the Latest Practicable Date. A portion of the Class A Ordinary Shares will be registered on the Hong Kong Share register of our Company in order to enable them to be traded on the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Class A Ordinary Shares or ADSs or exercising any rights attaching to the foregoing securities. We emphasize that none of our Company, the Joint Sponsors, any of our or their respective directors, officers or representatives or any other person involved in the Introduction accepts responsibility for any tax effects or liabilities resulting from the subscription, purchase, holding or disposing of, or dealing in, our Class A Ordinary Shares or ADSs or the exercise of any rights attaching to the foregoing securities.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our principal register of members will be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong branch register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

Dealings in our Class A Ordinary Shares registered on our Hong Kong Share register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.13% of the consideration for, or (if greater) the value of, our Class A Ordinary Shares transferred. In other words, a total of 0.26% is currently payable on a typical sale and purchase transaction of our Class A Ordinary Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

To facilitate ADS-ordinary share conversion and trading between Nasdaq and the Hong Kong Stock Exchange, we also intend to move a portion of our issued ordinary shares from our Cayman share register to our Hong Kong Share register. It is unclear whether, as a matter of Hong Kong law, the trading of ADSs or interchanges between ADSs and our Class A Ordinary Shares constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter.

CLASS A ORDINARY SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Class A Ordinary Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Class A Ordinary Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Class A Ordinary Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Class A ordinary shares to be admitted into CCASS.

LISTINGS

We have applied for a listing of our Class A Ordinary Shares on the Main Board by way of Introduction under Chapter 7 (Equity Securities) as well as Chapter 8A (Weighted Voting Rights) of the Listing Rules.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

Our Company currently has a primary listing of ADSs on the Nasdaq, which it intends to maintain alongside its proposed dual primary listing of Class A Ordinary Shares on the Stock Exchange.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

Our principal register of members will be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong branch register of members holding Class A Ordinary Shares listed on the Hong Kong Stock Exchange will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

EXCHANGE RATE CONVERSION

Solely for your convenience, this document contains conversions among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated, or at all. Unless indicated otherwise, the conversions between U.S. dollars and Renminbi were made at the rate of RMB6.6981 to US\$1.00 and the conversions between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8472 to US\$1, the respective exchange rate on June 30, 2022 set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve Board. All translations of financial data as of and for the nine months ended September 30, 2022 between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8498 to US\$1.00, the respective exchange rate on September 30, 2022 in the H.10 statistical release of The Board of Governors of the Federal Reserve Board. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

OWNERSHIP OF ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank (commonly referred to as the “**direct registration system**” or “**DRS**”). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is reported by transaction statements sent by the depositary bank to the holders of the ADSs. The direct registration system provides for automated transfers between the depositary bank and the DTC, the central book-entry clearing and settlement system for equity securities in the United States. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

DEALINGS AND SETTLEMENT OF CLASS A ORDINARY SHARES IN HONG KONG

Dealings in our Class A Ordinary Shares on the Stock Exchange will be conducted in Hong Kong dollars. Our Class A Ordinary Shares will be traded on the Stock Exchange in board lots of 100 Class A Ordinary Shares.

The transaction costs of dealings in our Class A ordinary shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% (which will be increased to 0.00565% on January 1, 2023) of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- AFRC transaction levy of 0.00015% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction (such trading tariff will be removed on January 1, 2023). The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.26% of the value of the transaction, with 0.13% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each Share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

Investors in Hong Kong must settle their trades executed on the Stock Exchange through their brokers directly or through custodians. For an investor in Hong Kong who has deposited his/her Class A Ordinary Shares in his/her stock account or in his/her designated CCASS Participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his/her broker or custodian before the settlement date.

DEPOSITARY

The depositary for the ADSs is The Bank of New York Mellon (the “**Depositary**”), whose office is located at 240 Greenwich Street, New York, New York 10286, United States. The certificated ADSs are evidenced by certificates referred to as American Depositary Receipts (“**ADRs**”) that are delivered by the Depositary.

Each ADS represents ownership interests in eight Class A Ordinary Shares, and any and all securities, cash or other property deposited with the Depositary in respect of such Shares but not distributed to ADS holders.

ADSs may be held either (1) directly (a) by having an ADR registered in the holder's name or (b) by holding in the DRS, pursuant to which the Depositary may register the ownership of uncertificated ADSs, which ownership shall be reported by transaction statements sent by the Depositary to the ADS holders entitled thereto, or (2) indirectly through the holder's broker or other financial institution. The following discussion regarding ADSs assumes the holder holds its ADSs directly. If a holder holds the ADSs indirectly, it must rely on the procedures of its broker or other financial institution to assert the rights of ADS holders described in this section. If applicable, you should consult with your broker or financial institution to find out what those procedures are.

We do not treat ADS holders as Shareholders, and ADS holders have no Shareholder rights. Cayman Islands law governs Shareholder rights. Because the Depositary actually holds the legal title to our Shares represented by ADSs (through the Depositary's Custodian (as defined below)), ADS holders must rely on it to exercise the rights of a Shareholder. The obligations of the Depositary are set out in the deposit agreement among us, The Bank of New York Mellon and the ADS holders and beneficial owners from time to time (the “**Deposit Agreement**”). The Deposit Agreement and the ADRs evidencing ADSs are governed by the law of the State of New York.

Transfer of Shares to Hong Kong Share Register

All of our Shares are currently registered on the principal register of members in the Cayman Islands. For the purposes of trading on the Hong Kong Stock Exchange, the relevant Class A Ordinary Shares must be registered in the Hong Kong Share register. ADSs are quoted for trading on Nasdaq. An investor who holds Shares and wishes to trade ADSs on Nasdaq must

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

deposit or have his/her broker deposit with The Hongkong and Shanghai Banking Corporation Limited, as custodian of the Depositary (the “**Depositary’s Custodian**”), the relevant Class A Ordinary Shares, so as to receive the corresponding ADSs as described below. Our principal register of members holding unlisted Shares and a portion of our Class A Ordinary Shares will be maintained by our Principal Share Registrar in the Cayman Islands, and our branch register of members holding Class A Ordinary Shares listed on the Hong Kong Stock Exchange and all Class A Ordinary Shares represented by the ADSs will be maintained by our Hong Kong Share Registrar in Hong Kong.

Converting Class A Ordinary Shares Trading in Hong Kong to ADSs

An investor who holds Class A Ordinary Shares registered in Hong Kong and who intends to exchange them for ADSs to trade on the Nasdaq must deposit or have his or her broker deposit the Class A Ordinary Shares with the depositary’s Hong Kong custodian, The Hongkong and Shanghai Banking Corporation Limited, or the custodian, in exchange for ADSs.

A deposit of Class A Ordinary Shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If Class A Ordinary Shares have been deposited with CCASS, the investor must transfer ordinary shares to the depositary’s account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the custodian via his or her broker.
- If Class A Ordinary Shares are held outside CCASS, the investor must arrange to deposit his or her Class A Ordinary Shares into the CCASS for delivery to the depositary’s account with the custodian within CCASS, and must submit and deliver a duly completed and signed conversion form to the custodian via his or her broker.
- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will register the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs as instructed in the conversion form.

For Class A Ordinary Shares deposited in CCASS, under normal circumstances, the above steps generally require two business days, provided that the investor has provided timely and complete instructions. For Class A Ordinary Shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Class A Ordinary Shares Trading in Hong Kong

An investor who holds ADSs and who intends to exchange his or her ADSs for Class A Ordinary Shares that trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Class A Ordinary Shares from the ADS program and cause his or her broker or other financial institution to trade such Class A Ordinary Shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker or other financial institution should follow the procedure of the broker or financial institution and instruct the broker to arrange for cancellation of the ADSs, and transfer of the underlying Class A Ordinary Shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw Class A Ordinary Shares from the ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will instruct the custodian to deliver Class A Ordinary Shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive Class A Ordinary Shares outside CCASS, he or she must receive Class A Ordinary Shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register Class A Ordinary Shares in their own names with the Hong Kong Share Registrar.

For Class A Ordinary Shares to be received in CCASS, under normal circumstances, the above steps generally require two business days, provided that the investor has provided timely and complete instructions.

For Class A Ordinary Shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Class A Ordinary Shares on the Hong Kong Stock Exchange until the procedures are completed.

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

Depository Requirements

Before the Depository delivers ADSs or permits withdrawal of Class A Ordinary Shares, the Depository may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including completion and presentation of transfer documents.

The Depository may refuse to deliver, transfer, or register issuances, transfers and cancelations of ADSs generally when the transfer books of the Depository or our Hong Kong Share Registrar or Cayman share registrar are closed or at any time if the Depository or we determine it advisable to do so, subject to such refusal complying with U.S. federal securities laws.

All costs attributable to the transfer of ordinary shares to effect a withdrawal from or deposit of Class A Ordinary Shares into the ADS program will be borne by the investor requesting the transfer. In particular, holders of Ordinary Shares and ADSs should note that the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Listing Rules), for each transfer of Class A Ordinary Shares from one registered owner to another, each Share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of ordinary shares and ADSs must pay up to US\$5.00 per 100 ADSs (or portion thereof) for each issuance of ADSs and each cancelation of ADSs, as the case may be, in connection with the deposit of Class A Ordinary Shares into, or withdrawal of ordinary shares from, the ADS program.

LANGUAGE

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English document which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Any discrepancies in any table in this document between total and sum of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

DIRECTORS

Name	Address	Nationality
Executive Directors		
Leaf Hua Li (李華)	Room 2, 27/F, Block 2 Yang Guang Dai Hai Bin Cheng Phase 2 Nanshan District Shenzhen PRC	Chinese
Nineway Jie Zhang (張傑)	Room 501, No. 4 Building, Yang Guang Si Ji No. 1 Shi Xia North Road Futian District Shenzhen PRC	Chinese
Non-executive Director		
Shan Lu (盧山)	No. 80 Yunxuan, Yuan Meng Yuan Garden Futian Bonded Zone Futian District Shenzhen PRC	Chinese
Independent non-executive Directors		
Vic Haixiang Li (李海翔)	Flat A10, 88 Wong Ma Kok Road Regalia Bay, Stanley Hong Kong	Chinese
Brenda Pui Man Tam (譚沛雯)	932 Weldwood Ct #3, Los Gatos CA, 95032 United States of America	Chinese
Yijiang Wang (王一江)	Flat B, 6/F, Block 32 Phase 6, Park Island Ma Wan, New Territories Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

PARTIES INVOLVED IN THE INTRODUCTION

Joint Sponsors

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

UBS Securities Hong Kong Limited

52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Sole Financial Advisor

The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Hong Kong

Auditor and Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Legal Advisors to our Company

As to Hong Kong and U.S. laws:

Clifford Chance

27th Floor, Jardine House
One Connaught Place
Central
Hong Kong

*Special counsel with respect to U.S.
regulatory and compliance matters:*

Cooley HK

Suites 3501-3505, 35/F
Two Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:

Han Kun Law Offices

9/F, Office Tower C1
Oriental Plaza, 1 East Chang An Avenue
Beijing 100738 China

CM Law Firm

Room 2805, Plaza 66
1366 West Nanjing Road
Shanghai
PRC

As to Cayman Islands laws:

Maples and Calder (Hong Kong) LLP

26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Legal Advisors to the Joint Sponsors

As to Hong Kong and U.S. laws:

Latham & Watkins LLP

18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:

Haiwen & Partners

Unit 2605, Jing An Kerry Center Tower 1
No.1515 Nan Jing West Road
Shanghai
PRC

20/F, Fortune Financial Center
5 Dong San Huan Central Road
Chaoyang District
Beijing
PRC

Legal advisor to the Designated Dealer and the Alternate Designated Dealer

As to Hong Kong and U.S. laws:

Latham & Watkins LLP

18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

Industry Consultant

**China Insights Industry Consultancy
Limited**

10F, Block B, Jing'an International Center
88 Puji Road, Jing'an District
Shanghai 200070 China

CORPORATE INFORMATION

Registered Office in the Cayman Islands	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal Corporate Offices and Principal Place of Business in Hong Kong	11/F, Bangkok Bank Building No. 18 Bonham Strand West Sheung Wan Hong Kong
Company's Website	<u>https://ir.futuholdings.com</u> <i>(A copy of this document is available on the Company's website. Except for the information contained in this document, none of the other information contained on the Company's website forms part of this document.)</i>
Joint Company Secretaries	Mr. Yu Qian 28/F, Building D1 Kexing Science Park Nanshan District Shenzhen PRC Ms. Lam Wing Chi <i>(ACG, HKACG)</i> 5/F, Manulife Place, 348 Kwun Tong Road Kowloon Hong Kong

CORPORATE INFORMATION

Authorized Representatives

Mr. Leaf Hua Li

Room 2, 27/F, Block 2
Yang Guang Dai Hai Bin Cheng, Phase 2
Nanshan District
Shenzhen
PRC

Ms. Lam Wing Chi

5/F, Manulife Place,
348 Kwun Tong Road
Kowloon
Hong Kong

Alternate to authorised representatives:

Mr. Arthur Yu Chen

11/F, Bangkok Bank Building
No. 18 Bonham Strand West
Sheung Wan
Hong Kong

Audit Committee

Mr. Vic Haixiang Li
Ms. Brenda Pui Man Tam (*Chairperson*)
Mr. Yijiang Wang

Compensation Committee

Mr. Vic Haixiang Li (*Chairperson*)
Ms. Brenda Pui Man Tam
Mr. Leaf Hua Li

Nomination Committee

Mr. Vic Haixiang Li (*Chairperson*)
Ms. Brenda Pui Man Tam
Mr. Leaf Hua Li

Corporate Governance Committee

Mr. Vic Haixiang Li
Ms. Brenda Pui Man Tam
Mr. Yijiang Wang (*Chairperson*)

CORPORATE INFORMATION

Compliance Adviser

Guotai Junan Capital Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Hong Kong Share Registrar

Tricor Investor Services Limited

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited

PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

Principal Banker(s)

Bank of China (Hong Kong) Limited

10/F, Bank of China Centre
Olympian City
11 Hoi Fai Road
West Kowloon, Hong Kong

Industrial and Commercial Bank of China (Asia) Ltd

34/F, ICBC Tower
3 Garden Road
Central, Hong Kong

Hang Seng Bank Limited

15/F, 83 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Hong Kong

INDUSTRY OVERVIEW

The information presented in this section, including certain facts, statistics and data, is derived from the market research report prepared by CIC, which was commissioned by us, and from various official government publications and other publicly available publications, unless otherwise indicated. The information derived from official government publications has not been independently verified by the Company, the Joint Sponsors nor any of our or their respective directors, officers, representatives or any other persons involved in the Listing.

SOURCES OF INFORMATION

This section contains information extracted from the CIC Report, independently prepared by CIC, which has been commissioned by us for this document. We expect to pay CIC a total of RMB830,000 for the CIC Report and our use thereof. CIC is a consulting company established in Hong Kong which provides industry consulting services, commercial due diligence and strategic consulting services for a variety of industries.

CIC undertook both primary and secondary research using various resources to construct this report. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, including those from the World Federation of Exchanges (“WFE”), the National Bureau of Statistics of China (“NBS”), Shanghai Stock Exchange (“SSE”), Shenzhen Stock Exchange (“SZEX”), China Securities Depository and Clearing Corporation Limited (“CSDC”), the Hong Kong Exchanges and Clearing Limited (“HKEX”), the New York Stock Exchange (“NYSE”), Nasdaq, the Singapore Exchange (“SGX”) and SFC. The information and data collected by CIC have been analyzed, assessed and validated using CIC’s in-house analysis models and techniques. The methodology used by CIC is based on information gathered from multiple levels, which allows for such information to be cross-referenced for reliability and accuracy.

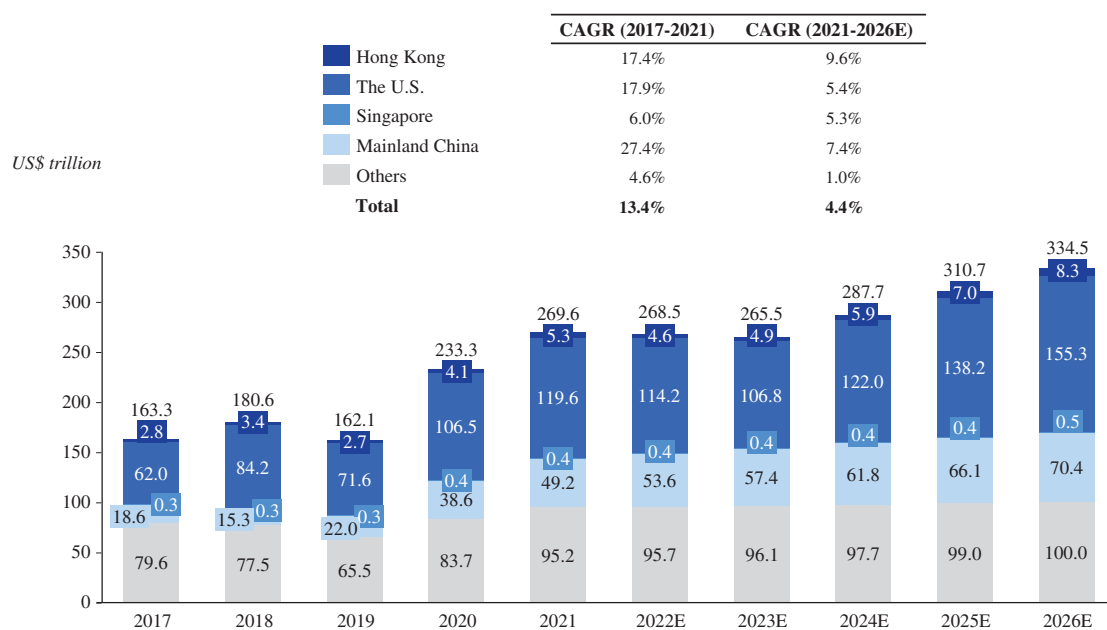
CIC prepared its report on the following basis and assumptions for historical data and projections: (i) the overall social, economic and political environment in China, Singapore and the U.S. is expected to remain stable during the forecast period; (ii) the relevant key industry drivers are likely to propel continued growth in the global securities market throughout the forecast period, including growing penetration of online securities brokerage services, increasing demands for overseas asset diversification by investors, and improving legal and regulatory environment; and (iii) there will be no extreme force majeure or unforeseen industry regulations which may affect the market significantly or fundamentally.

INDUSTRY OVERVIEW

OVERVIEW OF THE GLOBAL SECURITIES MARKET

The global securities market, including markets for stocks, bonds, ETFs, derivatives and other securities, experienced a growth in trading volume from US\$163.3 trillion in 2017 to US\$269.6 trillion in 2021 at a CAGR of 13.4%. The trading volume is projected to further reach US\$334.5 trillion in 2026 at a CAGR of 4.4%. Such growth is driven by multiple factors, including enterprises' continuous fundraising demands through capital markets, the robust increase of retail investors' disposable income and innovations in brokerage products and services. However, the global securities trading volume is expected to experience slight decreases in 2022 and 2023 in view of a slowdown in global economic growth and the weakening performance of global securities market due to the tightening financial conditions in most regions introduced to tackle rising inflation and living costs, geopolitical conflicts and the lingering impact of the COVID-19 pandemic. The global securities trading volume is expected to increase in 2024 and afterwards in view of the factors that global economies will recover and geopolitical uncertainties will be alleviated in the long run.

Global Securities Trading Volume by Listing Venue⁽¹⁾, 2017-2026E



Source: HKEX, NYSE, Nasdaq, SGX, SSE, SZSE, CSDC, WFE, CIC

Note:

- (1) The calculation is based on trading volume from retail investors and institutional investors, both of which include trading volume from market makers.

INDUSTRY OVERVIEW

Current market trends of the global securities market

- **Accelerating online penetration.** The development of mobile technology and investors' growing preference for online trading have advanced digital brokerage services which enable investors to place and submit orders to brokers online and execute securities transactions electronically. The outbreak of the COVID-19 pandemic has further accelerated the migration of trading activities from offline channels to online platforms. As a result, from 2017 to 2021, the penetration rate of online trading has increased from 40.4% to 53.2% and is expected to further increase to 62.2% in 2026.
- **Increasing retail participation.** The number of global retail investors continues to grow over the years, driven by improved financial literacy and a lower barrier to access financial markets. In 2021, trading volume from retail investors accounted for approximately 47.4% of the total trading volume of the global securities market, up from 39.6% in 2017, and is expected to account for 48.8% in 2026. Retail investors have been net buyers of securities globally and are exerting increasing influence on stock performance. For example, U.S. retail investors' average weekly net purchases of equities increased five-fold to over US\$5.0 billion from 2019 to 2021. Notably Hong Kong, Singapore and the U.S. presented the highest retail participation globally. In 2021, retail investors in these three markets represented 53.5%, 52.3% and 43.0% of their respective adult population, significantly higher than the global average of 16.3%.
- **Emerging demand for vibrant social communities.** An increasing number of young and tech-savvy retail investors actively engage in social communities. In Asia and North America, online brokerage platforms, which typically offer social communities, have gained popularity, evidenced by an approximately 10% annual growth in active users' daily average time spent thereon from 2019 to 2021. Younger investors tend to use social networks to share investment experiences, acquire market data and information and seek investment advice.
- **Diversifying product and service portfolio.** Many leading market players have transformed from securities brokerage tools into one-stop financial service platforms that integrate online trading, margin financing and securities lending, wealth management and other value-added services.

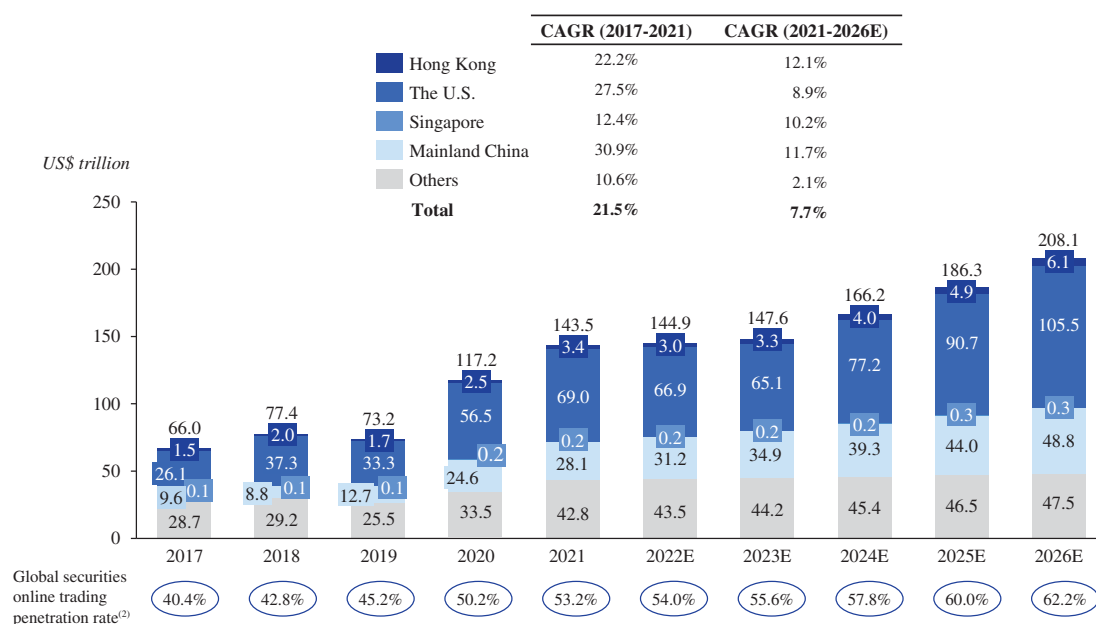
INDUSTRY OVERVIEW

Market size of the global online securities market

Driven by investors' rising preference for digital investment channels, the global online securities market demonstrated strong growth in the past five years. The trading volume of the global online securities market grew rapidly at a CAGR of 21.5% from US\$66.0 trillion in 2017 to US\$143.5 trillion in 2021.

The global online securities market will continue to experience robust growth due to the expansion of global capital markets, growing acceptance of online financial services and products and technology upgrades of online brokers. The trading volume of the global online securities market is projected to increase at a CAGR of 7.7% from 2021 to 2026 and reach US\$208.1 trillion in 2026. The online securities trading penetration rate is estimated to reach 62.2% globally in 2026, while retail investors' contribution to global online securities trading is expected to grow from 58.6% in 2021 to 59.2% in 2026.

Global Online Securities Trading Volume⁽¹⁾ by Listing Venue, 2017-2026E



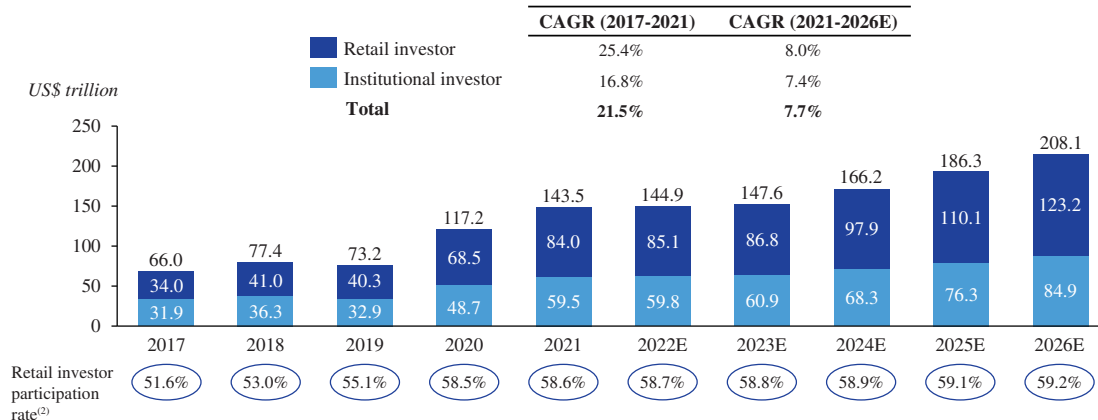
Source: HKEX, NYSE, Nasdaq, SGX, SSE, SZSE, CSDC, WFE, CIC

Notes:

- (1) The calculation is based on trading volume from retail investors and institutional investors, both of which include trading volume from market makers.
- (2) The global securities online trading penetration rate refers to the percentage of global online securities market out of the total global securities market measured by trading volume.

INDUSTRY OVERVIEW

Global Online Securities Trading Volume⁽¹⁾ by End Investor Type, 2017-2026E



Source: HKEX, NYSE, Nasdaq, SGX, SSE, SZSE, CSDC, WFE, CIC

Notes:

- (1) The calculation is based on trading volume from retail investors and institutional investors, both of which include trading volume from market makers.
- (2) The retail investor participation rate of global online securities market refers to retail investors' trading volume as percentage of total trading volume of global online securities market. Retail investors' online securities trading volume can be conducted through online brokers or traditional brokers.

HONG KONG, THE U.S. AND SINGAPORE ONLINE RETAIL SECURITIES MARKETS

Ranked as the first and fifth online securities market by trading volume in 2021, U.S. and Hong Kong were also among the world's fastest-growing online retail securities markets from 2017 to 2021, with a CAGR of 32.9% and 18.2%, respectively. Besides, Southeast Asian countries, including Singapore, Indonesia, Malaysia and Thailand, constitute a blue ocean market opportunity for online retail brokers. The growth of Singapore's retail investor base is expected to drive the growth of online retail trading volume not only in the Singapore securities market, but also in the U.S. and Hong Kong securities markets, due to retail investors' increasing appetite for global investment opportunities and asset diversification, and the introduction of online platforms that facilitates access to investment products and services.

INDUSTRY OVERVIEW

Market drivers for Hong Kong, the U.S. and Singapore online retail securities markets

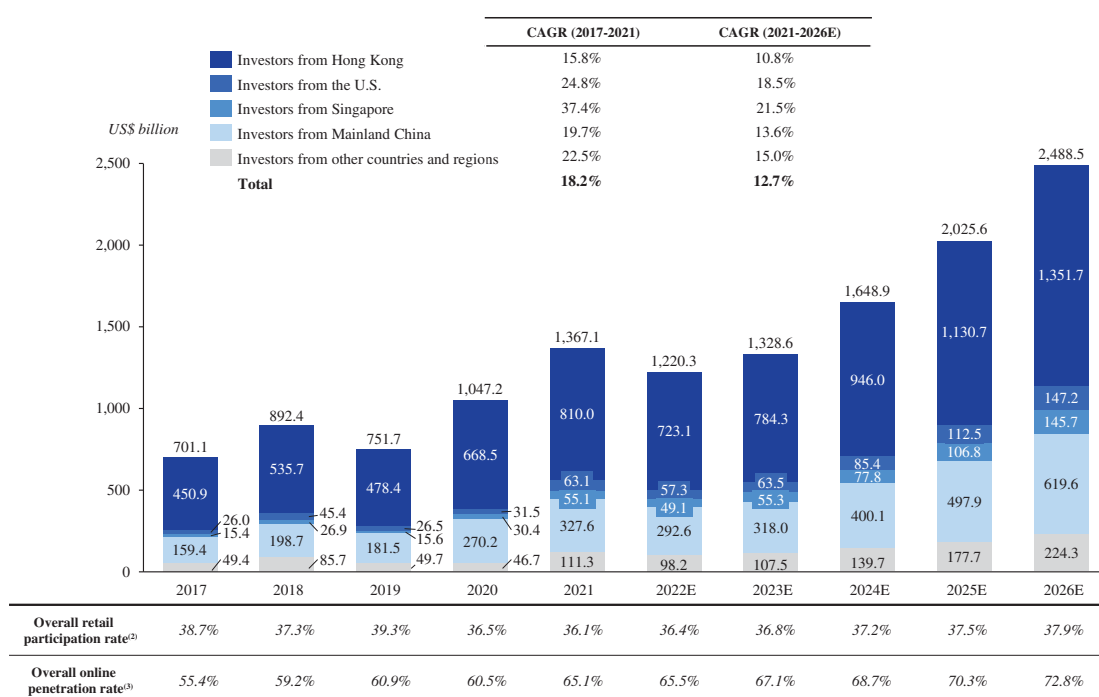
- **Growing retail investor base.** A large number of retail investors worldwide have been attracted by a wide range of diversified investment products through online trading services provided in Hong Kong, the U.S. and Singapore securities markets. From 2017 to 2021, each of these three countries and regions has experienced a double-digit CAGR in terms of retail investor base in the online retail securities market due to retail investors' increasing appetite for global investment opportunities and asset diversification, and increasing online trading services.
- **Integrated online services.** Digitalized trading platforms that provide intuitive interfaces and charge low commission fees have made securities markets more accessible to retail investors, particularly for the younger and tech-savvy generations. Digitalized trading platforms typically offer users a large variety of integrated products and services across multiple markets and currencies on a single platform. For example, users can access standard investment services, such as trade execution, margin financing and securities lending and wealth management, as well as other value-added services, such as market data and information services, interactive social communities and robo-advisory solutions.
- **Abundant investment opportunities.** Hong Kong, the U.S. and Singapore are popular listing venues for companies globally. From 2017 to 2021, IPO fundraising in the U.S. and Hong Kong increased by a CAGR of approximately 63.7% and 36.8%, respectively, primarily attributable to the deep pool of investors and high trading liquidity in these two markets. In particular, Hong Kong has introduced a new listing regime to facilitate the listing of innovative companies with weighted voting rights, pre-revenue biotech companies, and the secondary listing of qualified overseas listed companies. Implementation of these new listing rules effectively expands the availability of investment opportunities. Singapore, long known as a financial hub in Southeast Asia, is also highly recognized by its rich and diversified investment product offerings, including FTSE China A50 index futures and REITs.

INDUSTRY OVERVIEW

Market size of the Hong Kong online retail securities market

Driven by growth in the number of retail investors, the trading volume of the Hong Kong online retail securities market increased from US\$701.1 billion in 2017 to US\$1,367.1 billion in 2021 at a CAGR of 18.2% and is expected to reach US\$2,488.5 billion in 2026 at a CAGR of 12.7%. Hong Kong securities market's overall retail participation rate measured by trading volume was 36.1% in 2021, and is projected to reach 37.9% in 2026. Hong Kong securities market's overall online penetration rate measured by trading volume increased from 55.4% in 2017 to 65.1% in 2021, and is expected to reach 72.8% in 2026.

Hong Kong Online Retail Securities Trading Volume⁽¹⁾, by Citizenship of Retail Investors, 2017-2026E



Source: HKEX, WFE, CIC

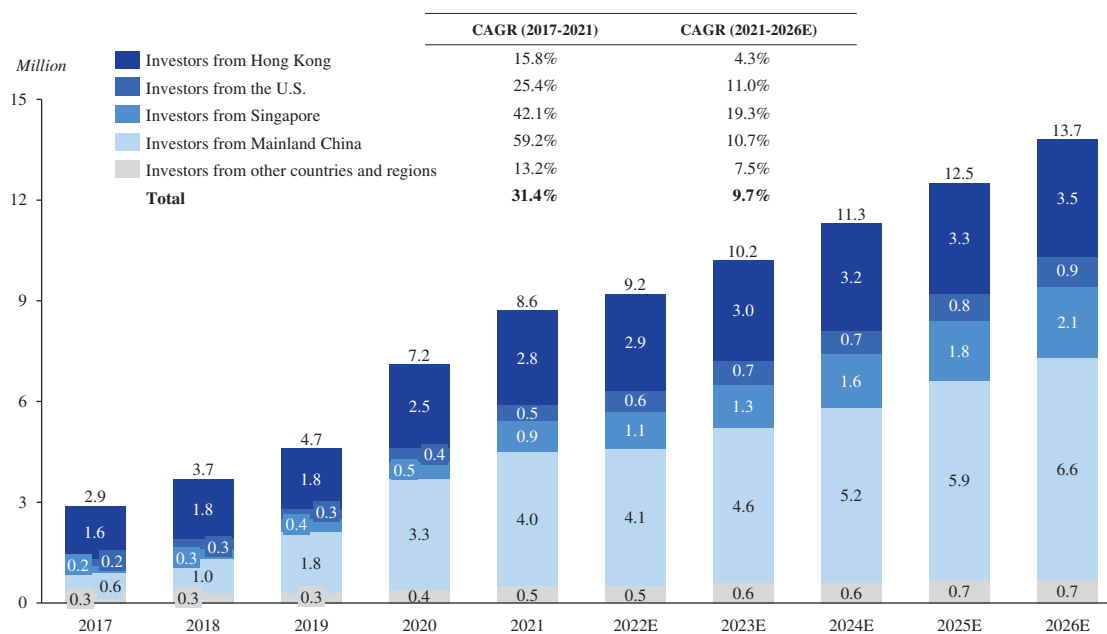
Notes:

- (1) The calculation is based on trading volume from retail investors, including trading volume from market makers.
- (2) The overall retail participation rate of the Hong Kong securities market refers to the percentage of Hong Kong retail securities market out of the overall Hong Kong securities market measured by trading volume.
- (3) The overall online penetration rate of the Hong Kong securities market refers to the percentage of Hong Kong online securities market out of the overall Hong Kong securities market measured by trading volume.

INDUSTRY OVERVIEW

The number of retail investors participating in the Hong Kong online retail securities market grew at a CAGR of 31.4% from 2.9 million in 2017 to 8.6 million in 2021, and is expected to reach 13.7 million in 2026 at a CAGR of 9.7%. Among others, investors from Mainland China played a significant role in the expansion of retail investor base of the Hong Kong online retail securities market. In 2021, 45.9% of retail investors participating in the Hong Kong online retail securities market were from Mainland China, compared to 21.3% in 2017, and this percentage is expected to reach 48.1% in 2026.

**Retail Investors in Hong Kong Online Retail Securities Market
by Citizenship of Investors, 2017-2026E**



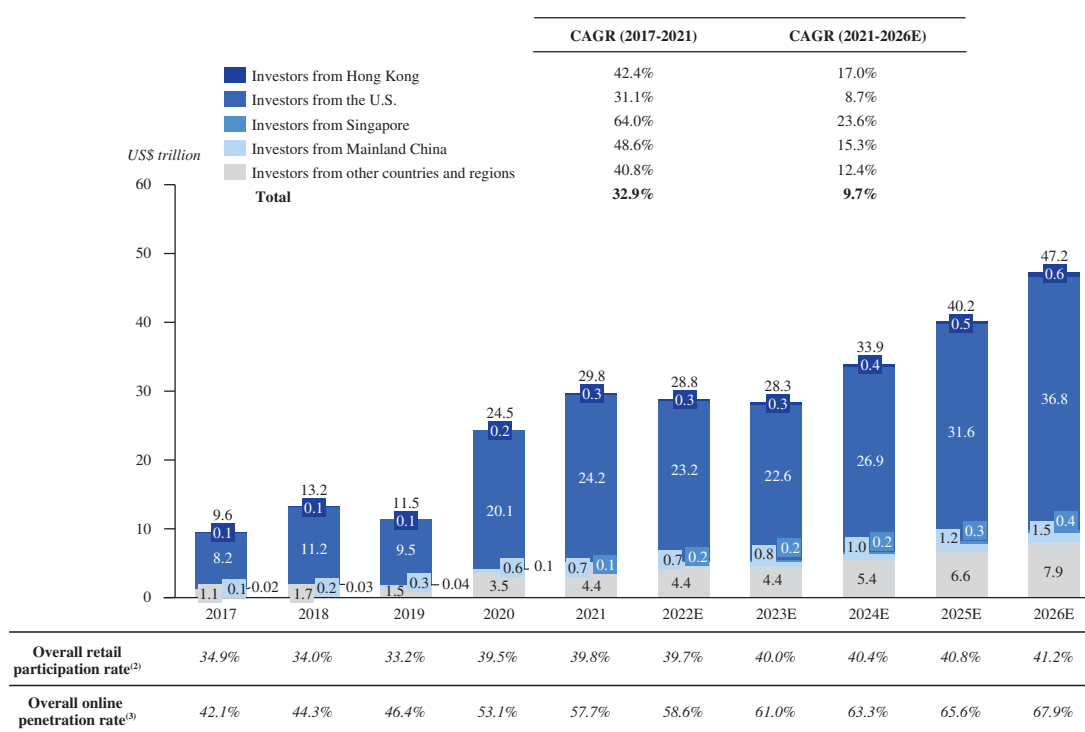
Source: HKEX, WFE, CIC

INDUSTRY OVERVIEW

Market size of the U.S. online retail securities market

The trading volume of the U.S. online retail securities market was US\$29.8 trillion in 2021, growing from US\$9.6 trillion in 2017 at a CAGR of 32.9%, and is projected to reach US\$47.2 trillion in 2026 at a CAGR of 9.7%. U.S. securities market's overall retail participation rate measured by trading volume increased from 34.9% in 2017 to 39.8% in 2021, and is projected to reach 41.2% in 2026. U.S. securities market's overall online penetration rate measured by trading volume grew from 42.1% in 2017 to 57.7% in 2021, and is expected to reach 67.9% in 2026.

U.S. Online Retail Securities Trading Volume⁽¹⁾ by Citizenship of Retail Investors, 2017-2026E



Source: NYSE, Nasdaq, WFE, CIC

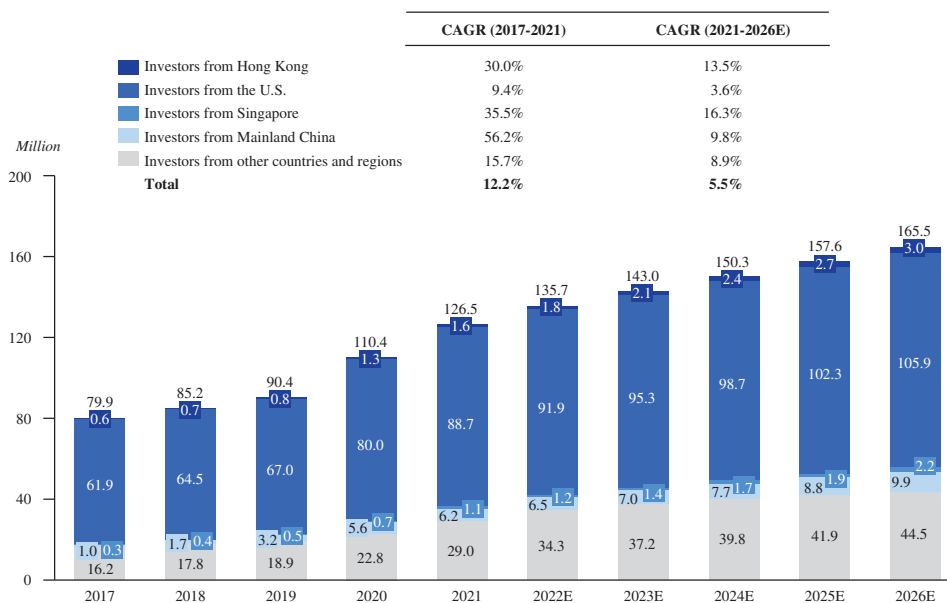
Notes:

- (1) The calculation is based on trading volume from retail investors, including trading volume from market makers.
- (2) The overall retail participation rate of the U.S. securities market refers to the percentage of U.S. retail securities market out of the overall U.S. securities market measured by trading volume.
- (3) The overall online penetration rate of the U.S. securities market refers to the percentage of U.S. online securities market out of the overall U.S. securities market measured by trading volume.

INDUSTRY OVERVIEW

The number of retail investors participating in the U.S. online retail securities market grew at a CAGR of 12.2% from 79.9 million in 2017 to 126.5 million in 2021, and is expected to reach 165.5 million in 2026 at a CAGR of 5.5%.

Retail Investors in the U.S. Online Retail Securities Market by Citizenship of Investors, 2017-2026E



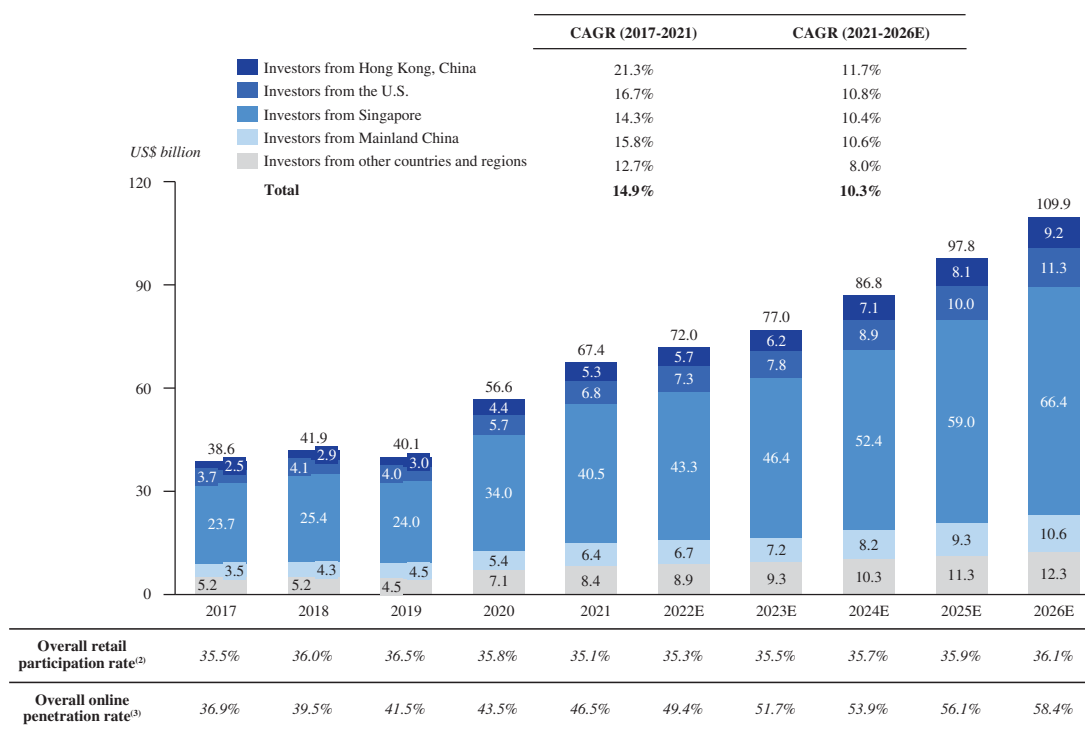
Source: NYSE, Nasdaq, WFE, CIC

INDUSTRY OVERVIEW

Market size of the Singapore online retail securities market

The trading volume of the Singapore online retail securities market grew from US\$38.6 billion in 2017 to US\$67.4 billion in 2021 at a CAGR of 14.9%, and is expected to reach US\$109.9 billion in 2026 at a CAGR of 10.3%. The increase is primarily due to Singapore's conducive financial policies and expanding personal wealth of local residents. Singapore securities market's overall retail participation rate measured by trading volume was 35.1% in 2021, and is projected to reach 36.1% in 2026. Singapore securities market's overall online penetration rate measured by trading volume grew from 36.9% in 2017 to 46.5% in 2021, and is expected to reach 58.4% in 2026.

**Singapore Online Retail Securities Trading Volume⁽¹⁾,
by Citizenship of Retail Investors, 2017-2026E**



Source: SGX, WFE, CIC

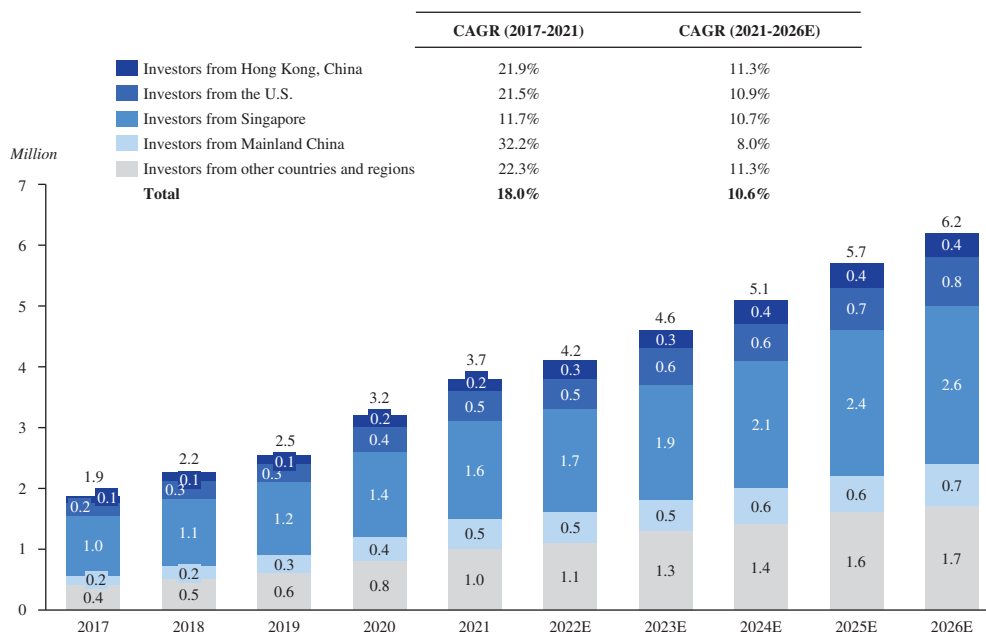
Notes:

- (1) The calculation is based on trading volume from retail investors, including trading volume from market makers.
- (2) The overall retail participation rate of the Singapore securities market refers to the percentage of Singapore retail securities market out of the overall Singapore securities market measured by trading volume.
- (3) The overall online penetration rate of the Singapore securities market refers to the percentage of Singapore online securities market out of the overall Singapore securities market measured by trading volume.

INDUSTRY OVERVIEW

The number of retail investors participating in the Singapore online retail securities market grew at a CAGR of 18.0% from 1.9 million in 2017 to 3.7 million in 2021, and is expected to reach 6.2 million in 2026 at a CAGR of 10.6%.

Retail Investors in Singapore Online Retail Securities Market by Citizenship of Investors, 2017-2026E



Source: SGX, WFE, CIC

Market opportunities in other Southeast Asia markets

The online retail securities markets in other Southeast Asian countries, including Indonesia, Malaysia and Thailand, demonstrate enormous growth potential, mainly attributable to the growing number of retail investors, investable assets and demands for convenient online securities investment tools.

- Development of mobile internet.** Southeast Asia has some of the fastest-growing mobile internet markets in the world. In Indonesia, Malaysia and Thailand, adult users of mobile internet grew from 169.3 million in 2017 to 217.4 million in 2021 at a CAGR of 6.5%. The increase was driven by multiple factors, including a high population growth rate, a large smartphone user base and the rapid development of telecom infrastructure. As a result, the weighted average penetration rate measured by number of mobile internet users out of the total population in Indonesia, Malaysia and Thailand increased from 46.7% in 2017 to 58.0% in 2021, and is expected to reach 67.5% in 2026.

INDUSTRY OVERVIEW

- **Improving access to financial services.** Over 50% of the total adult population in Indonesia, Malaysia and Thailand are yet to gain full access to financial services as of 2021, which translates to a huge potential market for financial services providers, including online brokers. Robust economic growth outlook in the region will accelerate household wealth accumulation. At the same time, the digital financial infrastructure is expected to develop rapidly amid favorable regulatory and financial environment. For example, Central Bank of Malaysia issued the policy document on Licensing Framework for Digital Banks in 2020 to encourage licensed digital banks to offer banking products and services through digital means, enabling innovative application of technology in the financial services sector. In the same year, Bank of Thailand set up a three-year strategic plan (2020-2022) to enhance the digitalization of domestic financial system and the development of open infrastructure for financial services sector. Furthermore, the Financial Services Authority of Indonesia launched Master Plan for the Indonesian Financial Services Sector (2021-2025) in 2021 to promote the digitalization of financial products and business operations. As a result, the financial services penetration rate measured by banked adults out of the total adult population is expected to rise from 31.7% in 2021 to 46.8% in 2026. Meanwhile, venture capitalists have been actively investing into the FinTech space in Indonesia, Malaysia and Thailand, which ultimately helps facilitate access to financial services and promote greater financial inclusion. In total, FinTech companies' capital raised in these three countries surged from US\$0.1 billion in 2017 to US\$1.5 billion in 2021 at a CAGR of 81.0%.
- **Popularity of online securities brokerage due to increasing financial asset allocation.** In 2021, households in Indonesia, Malaysia and Thailand allocated only 38.4% of their wealth to financial assets, significantly lower than the global average of 60.6%. As the penetration of mobile internet and accessibility to financial services rise, these countries are expected to follow the same path observed in other Asian countries and regions and experience a structural shift in investment from properties and pensions to stocks, mutual funds and other liquid assets. Online brokers are expected to win the majority of these new retail investors and assets, primarily due to their ability to offer intuitive user interface, seamless trading experience and low commission fees.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE ANALYSIS

The online securities brokerage market generally consists of two types of participants: (i) online brokers and (ii) traditional brokers. Traditional brokers include brokers with offline channels, and brokerage business units within commercial banks.

Online brokers typically present the following features:

- operating securities brokerage business substantially online;
- adopting asset-light business models typically with technological capabilities enabling frequent product iterations and functionality upgrades; and
- offering market intelligence and social networking functions, as one of the major approaches for client acquisition and engagement.

Traditional brokers typically present the following features:

- offering comprehensive financial services including securities brokerage business primarily offline;
- providing online functions and tools with limited product iterations and functionality upgrades; and
- having generally long operating history with established client base focusing on institutional investors and relying on offline branches' sales network for client outreach.

Compared to traditional brokers, online brokers are able to deliver more accessible and more stable digitalized services and comprehensive products supported by their technology capabilities and robust infrastructure. Online brokers establish large and vibrant user bases through their comprehensive marketing capabilities and are well-positioned to expand beyond geographical boundaries. Compared to online brokers, traditional brokers have competitive strengths in providing advanced products and services with a focus on institutional investors on the back of wide offline client reach and long operating history.

The Group held the largest market share of 10.7% in the Hong Kong retail securities brokerage market. The Group's total retail securities trading volume on the Hong Kong Stock Exchange was US\$283.2 billion in 2021.

INDUSTRY OVERVIEW

Top Five Brokers in Hong Kong Retail Securities Brokerage Market by Trading Volume, 2021

Ranking	Broker	Type	Total retail securities trading volume on the Hong Kong Stock Exchange ⁽⁵⁾ <i>(US\$ billion)</i>	Market share in terms of total retail trading volume on the Hong Kong Stock Exchange <i>(%)</i>	Total online retail securities trading volume on the Hong Kong Stock Exchange ⁽⁵⁾ <i>(US\$ billion)</i>
1	The Group	Online broker	283.2	10.7%	283.2
2	Company A ⁽¹⁾	Traditional broker	127.0	4.8%	105.0
3	Company B ⁽²⁾	Online broker	110.0	4.1%	110.0
4	Company C ⁽³⁾	Traditional broker	95.0	3.6%	76.0
5	Company D ⁽⁴⁾	Online broker	63.0	2.4%	63.0
	Others		1,978.8	74.5%	1,276.8
	Total		2,657.0	100.0%	1,914.0

Source: CIC

Notes:

- (1) Established in 2002, Company A is a brokerage business unit within a Chinese commercial bank that is listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, providing comprehensive financial services including banking, investment, wealth management, and securities brokerage.
- (2) Established in 1977, Company B is an international online broker listed on the NASDAQ, providing securities brokerage, margin financing and wealth management.
- (3) Established in 1959, Company C is a brokerage business unit within an international commercial bank that is listed on the Hong Kong Stock Exchange, providing a wide range of financial services including banking, investment, wealth management, and securities brokerage.
- (4) Established in 2014, Company D is an online broker listed on the NASDAQ, focusing on Chinese investors and primarily providing securities brokerage, margin financing, and wealth management. As of December 31, 2021, it facilitated securities trading primarily through cooperation with other licensed brokers.
- (5) Rounding adjustments have been applied to certain amounts of securities trading volume.

INDUSTRY OVERVIEW

Operating Indicators Comparison of Top Five Brokers in Hong Kong Retail Securities Brokerage Market, 2021

Broker	Total number of clients	Total number of paying clients	Number of MAUs ⁽¹⁾ in December 2021	Retention rate ⁽²⁾ of paying clients in the fourth quarter of 2021
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(%)</i>
The Group	2.8	1.2	2.2	97%
Company A	1.2	0.4	0.4	83%
Company B	1.7	N/A ⁽³⁾	N/A ⁽³⁾	N/A ⁽³⁾
Company C	0.8	0.3	0.3	85%
Company D	1.8	0.7	0.5	89%

Source: CIC

Notes:

- (1) MAUs (monthly active users) refer to the number of users and visitors who access the platform at least once during the calendar month.
- (2) Retention rate of paying clients for a given quarter is calculated by dividing the number of paying clients for the previous quarter whose trading accounts retain assets in the current quarter by the total number of paying clients for the previous quarter.
- (3) It is not meaningful for comparison purposes as the publicly available data of Company B only includes aggregate figures from both its institutional and retail clients.

Key success factors of online brokers

- **Strong brand recognition.** Online brokers with strong brand images tend to be perceived by retail investors as more trustworthy and having superior fund security and system stability. Thus, they are better-positioned to attract and retain customers.
- **Advanced technological capabilities.** Market leaders are usually equipped with advanced technology, solid infrastructure and strong research and development capabilities to handle sudden trading volume surge, maintain system and data security, and release new functionalities and upgrade product offerings in a timely manner.
- **Superior user experience.** Leading online brokers are committed to innovation and superior user experience. For example, leading online brokers can complete the account-opening process within five to ten minutes which may take one business day for other players. They can also provide users with a seamless trading experience by executing trades on an almost real-time basis.

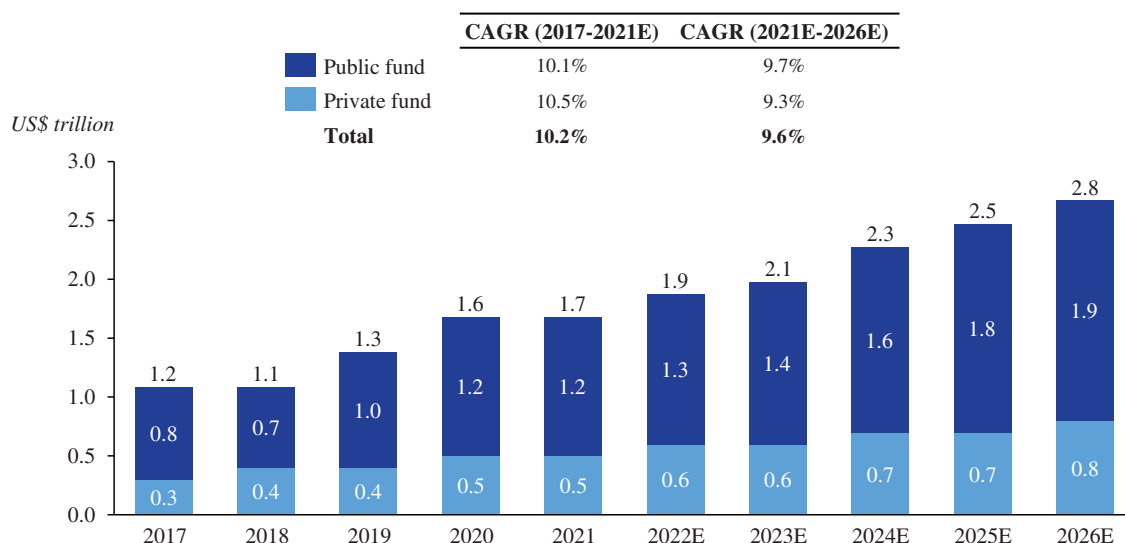
INDUSTRY OVERVIEW

- **Vibrant social community.** Retail investors tend to favor social networks to exchange investment ideas and share market information. Online brokers with interactive social platforms typically enjoy higher client engagement and retention rates, and thus bear better monetization potential.
- **Comprehensive product offerings.** Leading online brokers offer comprehensive product offerings including securities trading, margin financing, securities lending, real-time market information, as well as wealth management product distribution services. These services appeal to investors who prefer to have an integrated platform that can cater to their various investment needs.
- **Efficient user acquisition approaches.** Leading online brokers usually implement innovative marketing strategies to capture user mindshare and efficiently acquire users at relatively low cost.

HONG KONG WEALTH MANAGEMENT MARKET

As a competitive asset and wealth management center and a preferred place of fund domicile, Hong Kong witnessed rapid expansion of its wealth management market from US\$1.2 trillion in 2017 to US\$1.7 trillion in 2021 at a CAGR of 10.2%. This market is expected to reach US\$2.8 trillion in 2026 at a CAGR of 9.6%.

Market Size of Hong Kong Wealth Management Market by Assets Under Management⁽¹⁾, 2017-2026E



Source: SFC, CIC

Note:

- (1) The assets under management represents the sum of the net asset value of the public funds and private funds. Public funds include both SFC-authorized funds and those from other jurisdictions. Private funds include hedge funds, private equity and venture capital.

INDUSTRY OVERVIEW

Market drivers of the Hong Kong wealth management market

- **Comprehensive investment product suites.** Hong Kong appeals to global investors with its rich investment offerings across asset classes and abundant market liquidity. As of December 31, 2020, approximately 64.0% of the total assets under management by the asset and wealth management business in Hong Kong were sourced from investors domiciled outside Hong Kong, including those from the Asia-Pacific region, the U.S., Canada, Europe and other countries and regions. In 2021, Hong Kong wealth management market offered 2,839 authorized collective investment schemes, including public and private funds from local and international fund houses. In addition, Hong Kong differentiates itself by offering a variety of structured products such as Callable Bull/Bear Contracts. Hong Kong has also become a preferred listing venue for Chinese new economy companies as a result of the introduction of a new listing regime in 2018.
- **Development of Greater Bay Area Initiatives.** Hong Kong is the most preferred offshore investment destination for Chinese investors, partly due to its geographical and cultural proximity to Mainland China. Chinese investors have demonstrated rising interests in overseas markets in the past decade and recently been re-allocating their offshore assets from real estate to equities and funds for greater asset diversification. In response to such market dynamics, the Hong Kong Monetary Authority (“**HKMA**”), the Monetary Authority of Macao (“**AMCM**”) and the People’s Bank of China (“**PBOC**”) officially launched the Cross-boundary Wealth Management Connect (“**WMC**”) Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區“跨境理財通”業務試點) in September 2021. Investors in the region are allowed to access cross-boundary investment in wealth management products. As of May 31, 2022, over 29,000 individual investors participated in the WMC with the value of cross-boundary fund remittances exceeding RMB1.0 billion. The implementation of Greater Bay Area initiatives is expected to drive continued growth of Hong Kong wealth management market.
- **Infrastructure upgrade to facilitate access to wealth management products.** Investors continue to seek investment opportunities beyond traditional products such as bank deposits, which enables them to allocate their investments toward asset classes with a variety of risk and return profile. The optimization of financial infrastructure facilitates this trend. For example, the launch of the Fast Payment System realizes instant money transfer and gives investors easier access to wealth management products in the Hong Kong market.

REGULATIONS

This section sets forth a summary of the most significant rules and regulations that may affect our business activities.

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, or the SFO, 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 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 (Chapter 32 of the Laws of Hong Kong), or the CWUMPO, including its subsidiary legislation provides that the 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 CWUMPO. The SFO provides that the 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 Hong Kong Stock Exchange and the Hong Kong Futures Exchange.

REGULATIONS

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⁽¹⁾</u>
License	Regulated Activity
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 ⁽²⁾
Type 12:	Providing client clearing services for OTC derivative transactions ⁽³⁾

Notes:

- (1) On September 27, 2019, the SFC launched a consultation on a proposal to regulate depositaries of SFC-authorized collective investment schemes. Depositaries operating in Hong Kong would be licensed by or registered with the SFC for a new type of regulated activity (Type 13 (acting as a depositary (trustee/custodian) of a SFC-authorized collective investment scheme)) and be subject to the ongoing supervision of the SFC or the HKMA. As of the Latest Practicable Date, the consultation is still ongoing and the licensing requirement with respect to Type 13 regulated activity is not yet in operation.
- (2) 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 Bureau by notice published in the Gazette.
- (3) The Type 12 regulated activity added by the Securities and Futures (Amendment) Ordinance 2014 (6 of 2014) came into operation on September 1, 2016, in so far as it relates to paragraph (c) of the new definition of 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 Bureau by notice published in the Gazette.

REGULATIONS

As of the Latest Practicable Date, Futu International Hong Kong was licensed under the SFO to conduct the following regulated activities:

Regulated Activities by Type of License

Futu International Type 1, Type 2, Type 3⁽¹⁾, Type 4, Type 5, Type 7⁽²⁾ and Type 9⁽³⁾
Hong Kong

Notes:

- (1) The following condition is currently imposed on Futu International Hong Kong in relation to Type 3 regulated activity:
 - (i) the licensee shall not provide discretionary account services to clients.

- (2) The following conditions are currently imposed on Futu International Hong Kong in relation to Type 7 regulated activity:
 - (i) the licensee or any company within the same group of companies as the licensee shall not engage in any principal trading activities in the platform.

 - (ii) the licensee shall: (1) notify the SFC of any incident of material service breakdown or disruption of the operations of the platform affecting its clients within one business day. (2) provide the SFC with any updated independent review report of the platform when available. (3) provide the SFC with the following reports within two weeks after the end of each month or upon request: (a) a statistical summary of shares allotted pursuant to an initial public offering for which transactions have been executed; (b) a statistical summary of transaction volume, expressed in number of trades; number of shares traded; and total settlement value in respect of each issuer's shares reported in (a) above; (c) a statistical summary of transaction volume expressed in total settlement value by each of the top ten clients in respect of each issuer's shares reported in (a) above; (d) an analysis of (i) amount receivable from each of the top ten clients; and (ii) amount payable to each of the top ten clients arising from dealing in each issuer's shares reported in (a) above, including, the name of each client and type of client account (i.e. cash or margin account) and relevant amount receivable or payable to each client at the end of the trading day; (e) a statistical summary of total number of clients participated in the pre-initial public offering trading with breakdown into different client types in each issuer's shares reported in (a) above; and (f) a statistical summary of total value of trades recorded in the pre-initial public offering trading with breakdown into trades executed for different client types in each issuer's shares reported in (a) above. (4) for the avoidance of doubt, have arrangements in place to ensure that it and its clients will be able to comply with the Client Identity Rule Policy issued by the SFC. (5) upon request, provide the SFC with: (a) a list of all clients who have access to the platform; and (b) a list of all clients who have placed orders or traded on the platform in respect of any particular trading day.

 - (iii) the licensee shall: (1) have appropriate arrangements in place that enable it to: (a) monitor orders placed into and transactions undertaken on the platform to identify suspected breaches of any rules relating to fair and orderly trading on the platform and conduct that may constitute market abuse; (b) report to the SFC as soon as practicable any suspected breaches of its rules relating to fair and orderly trading on the platform or suspected market abuse; and (c) upon request from the SFC, supply relevant information to the SFC as soon as practicable regarding any suspected breaches or suspected market abuse and provide full assistance to the SFC in inquiring into or investigating the suspected breaches or suspected market abuse. (2) notify the SFC of any material changes to the matters specified below, prior to the changes taking effect: (a) corporate structure and governance arrangements; (b) business plans or operations; (c) the platform (including changes in trading rules, operating hours, operator of the system, hardware, software, and other technology); and (d) its contractual responsibilities for clients of the platform. (3) notify the SFC as soon as practicable of the causes, or possible causes, of and the remedial actions for material delay or failure to the operation of the platform effecting the clients upon its

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occurrence. (4) notify the SFC as soon as practicable of any suspected breaches of its rules relating to fair and orderly trading on the platform or suspected market abuse. (5) put in place appropriate business continuity plans and disaster recovery programmes for its operations and the platform and notify the SFC of any material changes to the plans or programmes.

- (iv) the licensee shall: (1) only provide Automated Trading Services via an electronic trading platform, for the purpose of trading shares allotted pursuant to an initial public offering only on the day immediately before their official listing on The Stock Exchange of Hong Kong Limited (SEHK). (2) have controls that: (a) are designed to ensure the integrity of its trading methodology; and (b) enable fair and orderly trading on the platform. (3) provide sufficient pre-trade order information and post-trade transaction information to its clients. (4) have appropriate arrangements in place that ensure the required information about executed transactions of shares allotted pursuant to an initial public offering is reported to SEHK in the prescribed manner and within the prescribed time limit in accordance with the rules of SEHK. (5) have appropriate arrangements in place to minimise the settlement failure of executed transactions. (6) have appropriate written policies and procedures to handle outstanding orders and executed transactions under contingency situations including, but not limited to, (a) postponement, cancellation or alternation to the terms and conditions of an initial public offering; (b) suspension, breakdown, or disruption of the platform; and (c) adverse weather like typhoon or black rainstorm. These policies and procedures should be provided to its clients prior to their using of the platform. (7) keep for a period of not less than seven years the following records in respect of the activities on the platform in such a manner as to enable them to be readily accessible and readily convertible into written form in the Chinese or English language; and provide any of those records to the SFC upon request: (a) client details, including their registered names and addresses, dates of admission and cessation, authorised traders and related details, and client agreements; (b) details of restricting, suspending, or terminating any client's access, including related reasons; (c) all notices and other information, whether written or communicated through electronic means, provided to clients generally; (d) routine daily and monthly summary of trading on the platform including: (i) shares allotment details of clients pursuant to an initial public offering; and (ii) transaction volume, expressed in number of trades; number of shares traded; and total settlement value. (8) keep for a period of not less than two years time-sequenced records of orders and any other actions or activities on the platform as particularised below in such a manner as to enable them to be readily accessible and readily convertible into written form in the Chinese or English language; and provide any of those records to the SFC upon request: (a) date and time that the order was received, executed, modified, cancelled and expired (where applicable); (b) identity of the client and authorised trader initiating the entry, modification, cancellation and execution of the order; (c) particulars of the order and any subsequent modification and execution of the order (where applicable), including but not limited to, the shares involved, the size and side (buy or sell) of the order, the order type, and any order designation, time and price limit and other conditions specified by the client initiating the order; and (d) particulars of the allocation and re-allocation (where applicable) of an execution.
- (3) The following conditions are currently imposed on Futu International Hong Kong in relation to Type 9 regulated activity:
 - (i) the licensee shall not provide a service of managing a portfolio of futures contracts for another person; and
 - (ii) the licensee shall only provide services to “professional investors” as defined under the SFO and its subsidiary legislation.

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In addition to the above licenses granted to Futu International Hong Kong by the 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. Furthermore, Futu International Hong Kong has been registered as a Mandatory Provident Fund Intermediary with the Mandatory Provident Fund Schemes Authority in Hong Kong since August 2020.

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 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 SFC to be approved as a Responsible Officer of such licensed corporation in relation to the regulated activities.

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Managers-in-Charge of Core Functions, or MICs

A licensed corporation is required to designate certain individuals as MICs and provide to the 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;
- (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.

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.

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Fit and Proper Requirement

Persons who apply for licenses to carry on regulated activities under the SFO must satisfy, and continue to satisfy the SFC after the grant of such licenses by the SFC, that they are fit and proper persons to be so licensed. The Fit and Proper Guidelines issued by the SFC under section 399 of the SFO summaries certain matters that the SFC will generally consider when determining whether the applicant is a fit and proper person to be licensed under the SFO. Effective from January 1, 2022, the additional fit and proper guidelines for corporations and authorized financial institutions applying or continuing to act as sponsors and compliance advisers are addressed under the Guidelines on Competence and Guidelines on Continuous Professional Training.

Under the Fit and Proper Guidelines, the 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 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).

In addition to the above, the SFC may also take into account of the following matters:

- (a) any decisions made by the HKMA, the Insurance Authority, the Mandatory Provident Fund Schemes Authority or any other authorities or organizations performing similar functions as those of SFC (in the 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;

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- (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 our licensed corporations under the SFO:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial resources returns to the SFC in accordance with the requirements under the Securities and Futures (Financial Resources) Rules of Hong Kong (“**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);

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- payment of annual fees and submission of annual returns to the SFC within one month after each anniversary date of the license;
- notification to the 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 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 SFC;
- compliance with the continuous professional training and related record keeping requirements under the Guidelines on Continuous Professional Training issued by the 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-Financing of Terrorism (For Licensed Corporations) issued by the SFC, or the AMLCTF Guideline;
- compliance with the business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission, the Fund Manager Code of Conduct and the Fit and Proper Guidelines;
- compliance with employee dealings requirements under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, 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;
- 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 SFC; and
- compliance with the requirements in relation to provision of order execution, distribution or advisory services in respect of investment products via online platforms under the Guidelines on Online Distribution and Advisory Platforms issued by the SFC.

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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 Capital</u>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 3, Type 4, Type 5, Type 7 and Type 9 regulated activities	HK\$30,000,000

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:

	<u>Regulated Activities</u>	<u>Minimum Amount of Paid-up Share Capital</u>
Futu International Hong Kong	A corporation licensed for Type 1, Type 2, Type 3, Type 4, Type 5, Type 7 and Type 9 regulated activities	HK\$15,000,000

(b) in the case of a corporation licensed for Type 3 regulated activity (whether or not it is also licensed for any other regulated activity), means the sum of 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 unlisted 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 unlisted 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 and 1.5% of its aggregate gross foreign currency position which means the aggregate of (i) the value of assets, other than fixed assets, beneficially owned by Futu International Hong Kong which are denominated in the foreign currency, (ii) all of Futu International Hong Kong's on-balance sheet liabilities, other than excluded liabilities, which are denominated in the foreign currency and (iii) the aggregate of the total amount of the foreign currency in respect of which Futu International Hong Kong is exposed to the risk of a decline or rise in the value of the foreign currency under outstanding contracts (including spot contracts).

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Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong) (the “Client Securities Rules”)

The repledging 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 repledges securities collateral of the intermediary. On each business day, the intermediary shall ascertain the aggregate market value of the repledged 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 repledged securities collateral as calculated above exceeds 140% of the intermediary’s aggregate margin loans on the same business day, or the Relevant Day, the intermediary shall by the close of business on the next business day following the Relevant Day, or the Specified Time, withdraw, or causes to be withdrawn, from deposit an amount of repledged securities collateral such that the aggregate market value of the repledged 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 Latest Practicable Date, Futu International Hong Kong was a participant of the following:

<u>Exchange/Clearing House</u>	<u>Type of Participantship</u>
The Stock Exchange of Hong Kong Limited (SEHK)	Participant China Connect Exchange Participant Options Trading Exchange Participant
Hong Kong Securities Clearing Company Limited (HKSCC)	Direct Clearing Participant China Connect Clearing Participant
SEHK Options Clearing House Limited (SEOCH)	Direct Clearing Participant
HKFE Clearing Corporation Limited (HKCC)	Clearing Participant
Hong Kong Futures Exchange Limited (HKFE)	Futures Commission Merchant

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Trading Rights

In addition to the licensing requirements under the SFO, the rules promulgated by the Stock Exchange of Hong Kong and the Hong Kong 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.

The Stock Exchange of Hong Kong Trading Rights and the Hong Kong Futures Exchange Trading Rights are issued by the Stock Exchange of Hong Kong and the Hong Kong Futures Exchange at a fee and in accordance with the procedures set out in their respective rules. Alternatively, the Stock Exchange of Hong Kong Trading Rights and the Hong Kong Futures Exchange Trading Rights can be acquired from existing Trading Right holders subject to the rules of the respective exchanges.

Exchange Participants

The table below sets out a summary of the key requirements for becoming an exchange participant of the relevant exchange:

	<u>Stock Exchange Participant/Stock Options Exchange Participant</u>	<u>Futures Exchange Participant</u>
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	

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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 of Hong Kong;
- 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.

SEOCH

SEOCH has two categories of participantship: (1) the Direct Clearing Participant; and (2) the General Clearing Participant. The requirements of Direct Clearing Participantship are as follows:

- be an Options Trading Exchange Participant of the Stock Exchange of Hong Kong;
- have in place procedures and a back office computer system appropriate to the type of SEOCH Participant applied for;

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- have a liquid capital of not less than the higher of:
 - (a) its required liquid capital under the Securities and Futures (Financial Resources) Rules; or
 - (b) HK\$5,000,000; and
- contribute HK\$1,500,000 to the reserve fund under the rules of SEOCH.

HKCC

HKCC has two categories of participation: (1) the General Clearing Participant; and (2) the Clearing Participant. The requirements of Clearing Participation are as follows:

- be an Exchange Participant of the Hong Kong Futures Exchange;
- have a liquid capital of not less than the higher of:
 - (a) its required liquid capital under the Securities and Futures (Financial Resources) Rules; or
 - (b) HK\$5,000,000; and
- contribute HK\$1,500,000 participant deposit to the reserve fund under the rules of HKCC.

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>.

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 which is and remains registered by HKSCC as a China Connect CCASS Clearing Participant for the clearing of its China Connect Securities Trades (capitalized terms of which are defined in the Rules of the Hong Kong Stock 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.

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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 counter-terrorist 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.

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;

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- identify the client and verify the client's identity and any beneficial owner'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;
- 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 and 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), or the 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.

Licensing Requirements for Trust or Company Service Providers ("TCSP") under the AMLO

A person who carries on or wishes to carry on a trust or company service business in Hong Kong is required to apply for a licence under the AMLO, unless any exemption under the AMLO applies. The Companies Registry of Hong Kong is responsible for the administration of the licensing regime for TCSPs. It is an offense for a person to carry on a trust or company service business in Hong Kong without a licence.

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A TCSP licence, once granted, will generally be valid for three years. The Companies Registry of Hong Kong is empowered to grant, refuse to grant, renew, suspend or revoke a licence, and impose or vary any conditions in relation to a licence. TCSP licensees are required to obtain prior approval from the Registrar of Companies of Hong Kong before any person becomes an ultimate owner, a partner or a director of a licensee. They should also give notifications to the Registrar of Companies of Hong Kong of any changes in particulars previously provided in connection with an application for the grant or renewal of a licence within one month of the change. A TCSP licensee who intends to cease to carry on the trust or company service business is also required to, before the intended date of cessation, notify the Registrar of Companies of Hong Kong of that intention and the intended date of cessation.

TCSP licensees are also required to comply with the statutory customer due diligence and record-keeping requirements as set out in Schedule 2 to the AMLO.

The Companies Registry of Hong Kong published the “Guideline on Licensing of Trust or Company Service Providers” to provide information on the licensing requirements and the “Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers” to provide guidance on the ongoing obligations of TCSP licensees. The register of licensees, which contains the name and business address of every TCSP licensee, is maintained by the Registrar of Companies of Hong Kong and is available for public inspection.

Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong), or the 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 authorized 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), or the OSCO

Among other things, the OSCO empowers officers of the Hong Kong Police Force and the Hong Kong Customs and Excise Department to investigate organized crime and triad activities, and confers jurisdiction on the Hong Kong courts to confiscate the proceeds of organized 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.

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United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong), or the 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 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 authorized 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), or the 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.

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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 criminalizes, 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 unauthorized 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.

Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)

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 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 or extortionate provisions. On October 26, 2022, the Legislative Council passed a resolution to reduce, with effect from December 30, 2022, the statutory interest rate limits under the Money Lenders Ordinance, including reducing the interest rate cap under section 24 from 60% per annum to 48% per annum. The resolution was published in the Gazette on October 28, 2022. 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.

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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, promote the importance of prudent borrowing, address increasing public concern about over-indebtedness and ensure better regulation of money lending-related practices. 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.”

Additional licensing conditions came into effect on December 1, 2016, October 11, 2018 and March 16, 2021. The Companies Registry of Hong Kong also published “Guidelines on Licensing Conditions of Money Lenders License” to provide guidance for money lenders licenses on the requirements of the licensing conditions. One of the additional licensing conditions is that a money lender shall comply with the Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Licensed Money Lenders, which is similar to the AMLCTF Guideline.

Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), or the IO

The IO (along with its subsidiary legislation) provides the regulatory framework for the business of insurers and insurance intermediaries (covering insurance agents and brokers) in Hong Kong. The IO provides that a person must not carry on a regulated activity, or must not hold out that the person is carrying on a regulated activity, in the course of business or employment, or for reward unless the person holds an appropriate type of insurance intermediary license or is exempt under the IO. Regulated activities include:

- negotiating or arranging a contract of insurance;
- inviting or inducing a person to enter into a contract of insurance (or attempting to do so);
- inviting or inducing a person to make a material decision in relation to a contract of insurance (or attempting to do so); and
- giving regulated advice.

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Types of Licensed Insurance Brokers

The licensing regime under the IO prescribes two types of licensed insurance brokers:

- licensed insurance broker companies, which is a company that is granted a license to carry out regulated activities and to perform the act of negotiating or arranging an insurance contract as an agent of any policy holder or potential policy holder; and
- licensed technical representatives (broker), which is an individual who is granted a license to carry on regulated activities, as an agent of any licensed insurance broker company.

Application for licensing

An application for an insurance intermediary license under the IO should be made to the Insurance Authority of Hong Kong, or the IA.

Effective September 23, 2019, the IA took over the regulation of insurance intermediaries from the three self-regulatory organizations (i.e., the Insurance Agents Registration Board, or the IARB, established under the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers, or the HKCIB and the Professional Insurance Brokers Association, or the PIBA, and became the sole regulator to license and supervise all insurance intermediaries in Hong Kong.

A license granted to a licensed insurance broker company or licensed technical representative by the IA is valid for three years or, if the IA considers it appropriate in a particular case, another period determined by the IA. The IA maintains a register of licensed intermediaries on its website.

Transitional Arrangements for Insurance Brokers

To facilitate a smooth transition, all insurance brokers who were validly registered with the IARB, the HKCIB and the PIBA immediately before September 23, 2019 are deemed as licensed insurance brokers under the IO for a period of three years. The incumbent chief executives and responsible officers of the insurance broker companies are also eligible for the transitional arrangements. The IA will, staggered over the three-year transitional period, invite deemed licensees to submit applications to the IA for granting of formal licenses and approvals.

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Requirements for Broker Companies

Under the IO, a person who is, is applying to be, or is applying for a renewal of a license to be, a licensed insurance broker is required to satisfy the IA that he/she/it is a fit and proper person. In addition, the responsible officer(s), controller(s), and director(s) (where applicable) of a licensed insurance broker company are also required to be fit and proper persons. These “fit and proper” requirements aim at ensuring that the licensed insurance brokers are competent, reliable and financially sound, and have integrity.

The IO imposes requirements (set out in rules made under section 129 of the IO) on licensed insurance broker companies in relation to the following aspects:

- capital and net assets;
- professional indemnity insurance;
- client accounts;
- proper books and accounts; and
- accounting disclosure.

The IO (and rules, regulations, codes and guidelines administered or issued by the IA) also includes requirements, which focus on the interactions which licensed insurance brokers have with policy holders and potential policy holders when carrying on regulated activities. These requirements include:

- the statutory conduct requirements, with which licensed insurance brokers must comply in carrying on regulated activities, in sections 90 and 92 of the IO;
- the relevant requirements set out in the rules, regulations, codes and guidelines made or issued under the IO; and
- the general principles, standards and practices set out in the Code of Conduct for Licensed Insurance Brokers.

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Hong Kong Taxation

Hong Kong profits tax is chargeable on every person, including corporations, carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). However, profits arising from the sale of capital assets are not subject to Hong Kong profit tax. Whether (i) an activity amounted to trade, profession or business; (ii) an asset is capital in nature or revenue in nature; and/or (iii) profits are arising in or derived from Hong Kong are questions of fact. Under the current Hong Kong Inland Revenue Ordinance, Hong Kong profits tax for a corporation from the year of assessment 2018/2019 onwards is generally 8.25% on assessable profits up to HK\$2.0 million; and 16.5% on any part of assessable profits over HK\$2.0 million.

In addition, if the transfer of a share is required to be registered in a share register in Hong Kong, or Hong Kong Share, stamp duty will be payable by the person(s) who effects any sale or purchase of such Hong Kong Share. The stamp duty in relation to transfer of Hong Kong Share is charged at the ad valorem rate of 0.13% of the consideration for, or (if greater) the value of, the shares transferred on each of the seller and purchaser. In other words, a total of 0.26% of the consideration for, or (if greater) the value of, the shares transferred is currently payable on a typical sale and purchase transaction of Hong Kong Share. In addition, the instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00.

Regulations on Employment in Hong Kong

The principle legislations that govern employment matters in Hong Kong include: (i) the Employment Ordinance (Chapter 57 Laws of Hong Kong); (ii) Minimum Wage Ordinance (Chapter 608 Laws of Hong Kong); (iii) Occupational Retirement Schemes Ordinance (Chapter 426 Laws of Hong Kong); (iv) Mandatory Provident Fund Schemes Ordinance (Chapter 485 Laws of Hong Kong); (v) Employees' Compensation Ordinance (Chapter 282 Laws of Hong Kong); and (vi) Occupational Safety and Health Ordinance (Chapter 509 Laws of Hong Kong).

According to the legislations above, although there is no specific requirement that employment contracts must be in written form, an employer is required to provide particulars of the terms of employment to the employee upon request. Wages should not be lower than the statutory minimum wage and shall be paid to the employees within seven days from the end of the relevant wage period. Employers also required to take out sufficient employees compensation insurance in respect of their liability to compensate employees for any injury or accident arising out of and in the course of employment. In addition, all employers are required to provide a safe and healthy work environment to all employees and put in place appropriate measures in the workplace. Violations of the relevant legislation may result in the imposition of fines or imprisonments and also claims from the employees.

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Regulations on Social Welfare in Hong Kong

Employers in Hong Kong are required by Hong Kong laws to enrol all eligible employees to their mandatory provident fund (“MPF”) scheme. Both the employer and the employee are each required to contribute an amount equal to at least 5% of an employee’s salary (subject to a statutory cap at HK\$1,500) per month to a retirement scheme that is registered as a MPF scheme. Some employers in Hong Kong may provide occupational retirement scheme as an alternative or additional benefit through occupational retirement scheme. Failure to maintain a retirement scheme, enrol eligible employees to its retirement scheme, or make the required contributions would be a criminal offence. Employers who are in breach may be subject to fine or imprisonment.

OVERVIEW OF THE LAWS AND REGULATIONS RELATING TO OUR PRESENCE 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 SCNPC, promulgated the Securities Law of the PRC (《中華人民共和國證券法》), or the Securities Law, and most recently amended on December 28, 2019 and became effective on March 1, 2020, 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 in the name of a securities company without the approval by the securities regulatory authority of the State Council. Offering and trading of securities outside China which disrupt the domestic market order of China and harm the legitimate rights and interests of domestic investors shall be dealt with pursuant to the relevant provisions of the Securities Law of the PRC. However, there are no further explanations or detailed rules and regulations with respect to the implementation of these rules.

The State Council promulgated the Regulations on the Supervision and Administration of Securities Companies (《證券公司監督管理條例》) 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.

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If some of our activities in China or our provision of services to our client base in China were deemed by relevant regulators as provision of securities business as stated in such laws and/or regulations mentioned above such as securities brokerage services, investment consulting services, futures business and/or any other regulated services and business activities in China or any new PRC laws and regulations are enacted to impose license requirements on us with respect to our activities in China and/or our provision of services to our client base 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 or activities in the PRC, and temporary suspension or removal of our websites, desktop devices and mobile application in China, which, in each case, may have adverse effect on our provision of service to PRC-based clients. See “Risk Factors — Risks Related to Our Business and Industry — We do not hold any license or permit for providing securities brokerage business in Mainland China. Although we do not believe we engage in securities brokerage business in Mainland China, there remain uncertainties as to the interpretation and implementation of relevant PRC laws and regulations or if any new PRC laws and regulations will be enacted to impose licensing requirements on us with respect to our activities in Mainland China and/or our provision of services to our PRC-based clients. If some of our activities in Mainland China were deemed by relevant regulators as provision of securities business such as securities brokerage services, investment consulting services, futures business and/or any other regulated services and business activities in Mainland China, our business, financial condition, results of operations and prospects may be materially and adversely affected.”

Regulations on the Securities Investment Consulting Service

On December 25, 1997, the former Securities Commission of the State Council issued the Interim Measures for the Administration of Securities or Futures Investment Consulting (《證券、期貨投資諮詢管理暫行辦法》), 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 securities investment 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.

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On October 11, 2001, the CSRC promulgated the Notice with Respect to Certain Issues on Regulating the Securities Investment Consulting Services Provided for the Public (《關於規範面向公眾開展的證券投資諮詢業務行為若干問題的通知》), which became effective on the same day and was amended on October 30, 2020, 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 from CSRC or any individual who is not employed by a qualified securities investment consulting services institution and who does not satisfy the relevant professional requirements. 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 (《關於加強對利用「薦股軟件」從事證券投資諮詢業務監管的暫行規定》), or the Interim Provisions, which came into effect on January 1, 2013 and was most recently amended on October 30, 2020. 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.

On July 14, 2021, the CSRC issued the Measures for Administrative Penalties on Illegal Securities and Futures Activities (《證券期貨違法行為行政處罰辦法》), which became effective on the same day. Pursuant to the Measures for Administrative Penalties on Illegal Securities and Futures Activities, any individual or entity may be subject to an administrative penalty when violates any of the relevant laws, regulations, or rules on securities and futures.

On December 20, 2019, PBOC, CBIRC, CSRC and SAFE promulgated the Notice on Further Regulating Financial Marketing and Publicity Activities (《關於進一步規範金融營銷宣傳行為的通知》), which came into effect on January 25, 2020. Pursuant to the Notice on Further Regulating Financial Marketing and Publicity Activities, “financial marketing and publicity activities” refers to the advertising and promotional activities of the financial institutions from the banking, securities and insurance sectors as well as institutions that conduct financial activities or financial related activities, or the Financial Offerings Providers, via the use of various promotional tools and approaches, which shall be conducted within the scope of the financial businesses approved by the financial supervision authorities under the State Council and its local regulatory agencies. A market entity which fails to obtain the

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required qualifications for the relevant financial activities is prohibited from carrying out marketing and advertising activities relating to such financial activities, except for marketing and advertising activities performed by information publishing platforms or medias as entrusted by Financial Offerings Providers that have acquired qualifications for financial business operations by operation of law.

Regulations on Offshore Stocks Investment

On January 29, 1996, the State Council promulgated the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》), which was last amended and such amendment became effective on August 5, 2008. Pursuant to the Foreign Exchange 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, PBOC promulgated the Administrative Measures for Personal Foreign Exchange (《個人外匯管理辦法》), which became effective on February 1, 2007, to further clarify 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 (《個人外匯管理辦法實施細則》) 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 (《國家外匯管理局有關負責人就改進個人外匯信息申報管理答記者問》) on December 31, 2016, Chinese nationals can only engage in offshore investments under capital items only via 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.

As we do not provide cross-border currency conversion services related to Renminbi to Chinese residents or institutions, we do not require our clients (including PRC-based users) to submit evidence of approval or registration from relevant authorities with respect to the foreign currency used for offshore investments. However, since the PRC authorities and the commercial banks designated by the SAFE to conduct foreign exchange services have significant amount of discretion in interpreting, implementing and enforcing the relevant foreign exchange rules and regulations including the abovementioned laws and regulations, and for many other factors that are beyond our control, we may be subject to further regulatory requirements, including but not limited to verifying evidence of approval from relevant authorities with respect to foreign currency exchange, which, in each case, may have adverse

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effect on our provision of service to PRC-based clients. See “Risk Factors — Risks Related to Our Business and Industry — We have not obtained licenses from relevant PRC regulatory authorities in connection with some of the information and services available on our platform. Future change in regulations and rules may impose additional requirements or restrictions on our platform.”

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 China and Hong Kong (《內地與香港股票市場交易互聯互通機制若干規定》), or the Several Provisions, 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 China 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, together the Stock Connect. On June 10, 2022, the CSRC further amended the Several Provisions, which became effective on July 25, 2022, stating that such investors that entitle to the rights and interests of stocks purchased through the Stock Connect shall not include investors from Mainland China. Moreover, such investors from Mainland China, or the Mainland Investors, who has already obtained the trading permission to trade under the Stock Connect shall not purchase any A-shares since July 24, 2023.

The latest version of The Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect Program and the latest version of the Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect Program, together the Implementing Measures, promulgated by the Shanghai Stock Exchange and the Shenzhen Stock Exchange on June 24, 2022 respectively, further clarified that the Mainland Investors shall include individuals that possess China ID documents and corporate or unincorporated entities which are registered in the China, however Chinese citizens that hold overseas permanent residence permits shall not be included.

Moreover, the Implementing Measures state that a transitional period of one year shall be set up from July 25, 2022. After the transitional period, Mainland Investors who have already obtained the trading permission to trade under the Stock Connect shall not proactively buy any securities under the Stock Connect through Stock Connect (including subscription for right issues), but excluding obtaining securities under the Stock Connect passively as a result of corporate actions (such as distribution of stock dividends) or selling such securities.

Regulation on Fund Sales Business

On October 28, 2003, the SCNPC promulgated the Securities Investment Funds Law (《證券投資基金法》) and newly amended on April 24, 2015, which indicated that any agencies that engages in the fund services, including but not limited to sales, investment

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consulting, information technology system services, shall be registered or filed with the provisions of the securities regulatory authority of the State Council. The Measures for Supervision and Administration of Sales Agencies for Publicly-offered Securities Investment Funds (《公開募集證券投資基金銷售機構監督管理辦法》), which was promulgated by the CSRC on August 28, 2020 and became effective on October 1, 2020, further regulates that securities companies and other institutions, subject to satisfaction of the relevant requirements, shall apply for business qualification for sales of funds from the local branches of the CSRC.

Draft Measures on Securities Brokerage Business

In July 2019, the CSRC published the Measures for the Administration of Securities Brokerage Business (Draft for Comment) (《證券經紀業務管理辦法(徵求意見稿)》), or the Draft Measures on Securities Brokerage Business, for public comments, which had not been formally adopted as effective laws as of the Latest Practicable Date.

Article 45 of the Draft Measures on Securities Brokerage Business stipulates that an overseas securities business entity violating Article 95 of the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》), directly or through its affiliates conducting activities such as opening account, marketing and other activities of overseas securities trading services for domestic investors without authorization, shall be penalized according to the Securities Law.

Article 95 of the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》) stipulates that an overseas securities business entity that conducts securities business or establishes a representative office in Mainland China shall obtain the approval of the securities regulatory authority of the State Council. The specific measures shall be formulated by the securities regulatory agency of the State Council and submitted to the State Council for approval.

As advised by our PRC Legal Advisors, Article 45 of the Draft Measures on Securities Brokerage Business (assuming they were to be implemented in the current form) would not be applicable to our Group as violation of Article 45 (in its current form) can only be established if there is a violation of Article 95 of the Regulations on Supervision and Administration of Securities Firms by an overseas securities business entity.

As advised by our PRC Legal Advisors, securities business refers to “securities brokerage business, securities investment, investment consulting business, securities margin trading and other businesses approved by the securities regulatory authorities under the State Council” as defined in Articles 118 and 120 of the Securities Law. Whether or not a company engages in or is deemed to have engaged in securities business in the PRC (and hence a PRC securities license is required) depends on the substance of the business operation (whether the business operated by such company falls within the definition of securities business as defined under the Securities Law).

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Our brokerage services involve securities listed on the major exchanges in Hong Kong (including eligible northbound securities under the Stock Connect and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange), the U.S., Singapore and Australia. As advised by our PRC Legal Advisors, a PRC securities license (經營證券期貨業務許可證) granted by the CSRC under the Securities Law only allows the clients of such PRC securities broker to trade securities listed on the A-share markets and eligible southbound securities under the Stock Connect, but not the other securities listed in Hong Kong or elsewhere. Therefore, the PRC securities license granted by the CSRC under the Securities Law is not required for our brokerage services.

As advised by our PRC Legal Advisors, as of the date of this document, neither the operation of *Futubull* mobile and desktop applications and “futunn.com” website (the “**Futubull platform**”) by Shenzhen Futu nor the provision of securities services outside Mainland China by Futu International Hong Kong would constitute engaging in securities business in the PRC as stipulated under the Securities Law or the Regulations on Supervision and Administration of Securities Firms. Accordingly, such operations do not violate Articles 118 and 120 of the Securities Law or Article 95 of the Regulations on Supervision and Administration of Securities Firms.

As advised by our PRC Legal Advisors, Futu International Hong Kong is regarded as an “overseas securities business entity” under Article 95 of the Regulations on Supervision and Administration of Securities Firms. However, the operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not constitute the provision of securities business in Mainland China. Also according to Administrative Measures on Representative Offices of Foreign Securities Institutions Stationed in China (《外國證券類機構駐華代表機構管理辦法》), “representative offices (代表處)” means the offices established in the PRC which conduct consultation, business solicitation, market research and other non-operational activities in the name of the foreign securities business entity (外國證券類機構在中國境內獲准設立並從事諮詢、聯絡、市場調查等非經營性活動的派出機構). Our operating subsidiaries in Mainland China mainly engage in technology and R&D services and other business activities (such as provision of ESOP solution services, market data, information services, user community and investor education, which are not regulated by the Securities Law in the PRC) in their own name, but not in the name of or on behalf of Futu International Hong Kong. In this regard, our PRC Legal Advisors are of the view that these operating subsidiaries in Mainland China are not the representative offices of Futu International Hong Kong. Furthermore, we have not been notified by the CSRC that any of our operating subsidiaries in Mainland China is regarded as a representative office of Futu International Hong Kong. Our Group’s securities brokerage business is conducted outside Mainland China through its entities and employees licensed with the relevant regulators, such as the SFC in Hong Kong, and not through its operating subsidiaries in Mainland China.

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Therefore, as advised by our PRC Legal Advisors, the operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not violate Article 95 of the Regulations on Supervision and Administration of Securities Firms. Accordingly, as of the date of this document, Article 45 of the Draft Measures on Securities Brokerage Business would not be applicable to our Group even if they were to be implemented in the current form.

However, our PRC Legal Advisors also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations over the applicable PRC laws and regulations, including but not limited to, Securities Law of the PRC and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》) and Administrative Measures on Representative Offices of Foreign Securities Institutions Stationed in China (《外國證券類機構駐華代表機構管理辦法》). Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors.

We believe that we will be able to re-configure our platforms within a reasonably short period of time to comply with the new regulations in the PRC should they become effective even if these new regulations were to prohibit our Group from onboarding any new PRC-based clients, such as restricting account opening and access to certain functions on our platforms to IP addresses outside of the PRC.

Based on the above analysis, the Joint Sponsors' PRC legal advisor is of the view that, the operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not violate the Article 45 of the Draft Measures on Securities Brokerage Business if they were to be implemented in the current form.

However, as advised by our PRC Legal Advisors, the Draft Measures on Securities Brokerage Business is only a draft form for public comment and had not come into effect as of the Latest Practicable Date, and it remains uncertain as to whether and when it will take effect and to what extent it will take effect in its current form. There has not been any further publicly disclosed update on the Draft Measures on Securities Brokerage Business since its first publication in 2019. It remains to be seen as to how certain key legal concepts in the Draft Measures on Securities Brokerage Business will be interpreted by the regulatory authorities with the support of implementation rules in the finalized Draft Measures on Securities Brokerage Business, including Article 45.

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Regulations on Internet Service

Regulation on Foreign Investment

The Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the National People's Congress on March 15, 2019, has come into effect on January 1, 2020 and has replaced the trio of old laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law (《外資企業法》), together with their implementation rules and ancillary regulations. The Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the Foreign Investment Law, China adopts a system of national treatment plus Negative List with respect to foreign investment administration, and the Negative List will be issued by, amended or released upon approval by the State Council, from time to time. Foreign investment and domestic investment in industries outside the scope of the Negative List would be treated equally.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), promulgated by the State Council with the latest amendments becoming effective in May 2022, the ultimate foreign equity ownership in a value-added telecommunication services provider must not exceed 50%. On December 27, 2021, the Ministry of Commerce, or the MOFCOM and the NDRC promulgated the Special Administrative Measures for Entrance of Foreign Investment (Negative List) (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the Negative List (《負面清單》), which became effective on January 1, 2022. The Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. According to the Negative List, the proportion of foreign investment in entities engaged in value-added telecommunication services (excluding e-commerce, domestic multiparty communications services, store-and-forward services, and call center services) shall not exceed 50%.

On December 26, 2019, the Stated Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), or the Implementation Regulations, which also became effective on January 1, 2020. Under the Implementation Regulations, in the event of any discrepancy between provisions or regulations on foreign investment formulated or promulgated prior to January 1, 2020 and the Foreign Investment Law and the Implementation Regulations, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulations also indicated that foreign investors that invest in sectors on the Negative List in which foreign investment is restricted shall comply with special management measures with respect to shareholding, senior management personnel and other matters in the Negative List.

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On December 30, 2019, the MOFCOM and the SAMR jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020, replacing the then existing filing and approval procedures regarding the establishment and change of foreign-invested companies. Where foreign investors make investments in China directly or indirectly, such foreign investors or foreign-invested enterprises shall submit their investment information to the competent commerce authorities in accordance with the Measures for Information Reporting on Foreign Investment.

On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法》), which became effective on January 18, 2021. Pursuant to the Measures for the Security Review of Foreign Investment, the NDRC and the MOFCOM will establish a working mechanism office in charge of the security review of foreign investment, and any foreign investment which has or could have an impact on national security shall be subject to security review by such working mechanism office. The Measures for the Security Review of Foreign Investment further require that a foreign investor or its domestic affiliate shall apply for clearance of national security review with the working mechanism office before they conduct any investment into any of the following fields: (i) investment in the military industry or military-related industry, and investment in areas in proximity of defense facilities or military establishment; and (ii) investment in any important agricultural product, important energy and resources, critical equipment manufacturing, important infrastructure, important transportation services, important cultural products and services, important information technologies and internet products and services, important financial services, critical technologies and other important fields which concern the national security where actual control over the invested enterprise is obtained.

Regulations on Telecommunication Services

The Telecommunications Regulations of the PRC (2016 Revision) (《中華人民共和國電信條例(2016年修訂)》), or the Telecom Regulations, promulgated on September 25, 2000 by the State Council and most recently amended on February 6, 2016, which distinguish “basic telecommunication services” from “value-added telecommunication 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 value-added 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 for Telecommunication Business Operating License (《電信業務經營許可管理辦法》), promulgated by the MIIT with latest amendments becoming effective in September 2017, set forth the types of licenses required for value-added telecommunication services and the qualifications and procedures for obtaining such licenses.

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The Administrative Measures on Internet Information Services (2011 Revision) (《互聯網信息服務管理辦法(2011修訂)》), 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 and/or other 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. The Catalog of Classification of Telecommunications Services (2015 Edition) (《電信業務分類目錄(2015年版)》), promulgated by the MIIT in December 2015 and amended in June 2019 further divides ICP services into information publication platform and delivery services, information search and inquiry services, information communities platform services, instant message services, and information security and management services.

Regulation on Internet Audio-Visual Program Services

The Administrative Provisions on the Internet Audio-Video Program Service (《互聯網視聽節目服務管理規定》), 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 (《互聯網視聽節目服務業務分類目錄(試行)》), or the Audio-Video Program Categories, promulgated on March 17, 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.

Regulation on Internet Culture Activities

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), 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

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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.

Regulation on Production and Operation of Radio and Television Programs

The Administration of Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》), promulgated on July 19, 2004, and amended on August 28, 2015 by the SAPPRFT and October 29, 2020 by the National Radio and Television Administration, 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 product or operate the radio and TV programs.

Regulation on Internet News Dissemination

The Provisions for the Administration of Internet News Information Services (《互聯網新聞信息服務管理規定》) was promulgated by the Cyberspace Administration of China, or CAC, 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 CAC. 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 no less than RMB10,000 and 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 (《互聯網新聞信息服務許可管理實施細則》), promulgated on May 22, 2017, by the CAC, 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.

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Displaying news on a website and disseminating news through the internet are highly regulated in the PRC. The Administration of Engagement by Internet Sites in the Business of News Publication Tentative Provisions (《互聯網站從事登載新聞業務管理暫行規定》), jointly promulgated by the News Office of State Council and the Ministry of Information Industry in November 2000, require an internet site (other than a government authorized news unit) to obtain an approval from the News Office of State Council to post news or to disseminate news through the internet. Furthermore, the disseminated news must come from government-approved sources pursuant to contracts between the internet site and the sources, copies of which must be filed with the relevant government authorities.

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 (《互聯網安全保護技術措施規定》), 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 (《信息安全等級保護管理辦法》) 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 (《中華人民共和國網絡安全法》), 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, and such records shall be kept for no less than 6 months; (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,

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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. In addition, on September 22, 2020, the MPS issued the Guiding Opinions on Implementing the Cybersecurity Protection System and Critical Information Infrastructure Security Protection System (《貫徹落實網絡安全等級保護制度和關鍵信息基礎設施安全保護制度的指導意見》) to further improve the national cybersecurity prevention and control system.

On December 29, 2017, the Information Security Technology — Personal Information Security Specification (《信息安全技術—個人信息安全規範》), or the China Specification, was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and last amended on March 6, 2020 and came into force on October 1, 2020, 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.

On December 28, 2021, the CAC, the NDRC, the MIIT and several other PRC governmental authorities jointly issued the Cybersecurity Review Measures (《網絡安全審查辦法》), which became effective on February 15, 2022 and replaced the Measures for Cybersecurity Review published on April 13, 2020. Pursuant to Cybersecurity Review Measures, critical information infrastructure operators that purchase network products and services and network platform operators engaging in data processing activities that affect or may affect national security are subject to cybersecurity review under the Cybersecurity Review Measures. According to the Cybersecurity Review Measures, before purchasing any network products or services, a critical information infrastructure operator shall assess potential national security risks that may arise from the launch or use of such products or services, and apply for a cybersecurity review with the cybersecurity review office of CAC if national security will or may be affected. In addition, network platform operators who possess personal information of more than one million users, and intend to be listed at a foreign stock exchange must be subject to the cybersecurity review.

On June 10, 2021, the SCNPC issued the Data Security Law of the PRC (《中華人民共和國數據安全法》), or the Data Security Law, which came into effective on September 1, 2021. The Data Security Law clarifies the scope of data to cover a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization, and requires that data collection shall be conducted in a legitimate and proper manner, and theft or illegal collection of data is not permitted. Data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. In addition, data processing activities shall be conducted on the basis of the graded protection system for cybersecurity. Monitoring of the data processing activities shall be strengthened, and remedial measures shall be taken immediately in case of discovery of risks

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regarding data security related defects or bugs. In case of data security incidents, responding measures shall be taken immediately, and disclosure to users and report to the competent authorities shall be made in a timely manner.

On July 30, 2021, the State Council promulgated the Regulations on Protection of Security of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), effective on September 1, 2021, pursuant to which, a “critical information infrastructure” refers to critical network facilities and information systems involved in important industries and sectors, such as public communication and information services, energy, transportation, water conservancy, finance, public services, governmental digital services, science and technology related to national defense industry, as well as those which may seriously endanger national security, national economy and citizen’s livelihood or public interests if damaged or malfunctioned, or if any leakage of data in relation thereto occurs. The competent governmental departments and supervision and management departments of the aforementioned important industries will be responsible for (i) organizing the identification of critical information infrastructures in their respective industries in accordance with relevant identification rules, and (ii) promptly notifying the identified operators and the public security department of the State Council of the identification results. In the event of occurrence of any major cybersecurity incident or discovery of any major cybersecurity threat for the critical information infrastructure, the operator shall report to the protection authorities and the public security authorities as required.

On December 31, 2021, the CAC and other relevant PRC government authorities promulgated the Administrative Provisions on Internet Information Service Algorithm Recommendation (《互聯網信息服務算法推薦管理規定》), which came into effect on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm Recommendation implements classification and hierarchical management for algorithm recommendation service providers based on varies criteria. Moreover, it requires algorithmic recommendation service providers to provide users with options that are not specific to their personal characteristics, or provide users with convenient options to cancel algorithmic recommendation services. If the users choose to cancel the algorithm recommendation service, the algorithm recommendation service provider shall immediately stop providing relevant services. Algorithmic recommendation service providers shall also provide users with the function to select, modify or delete user labels which are used for algorithmic recommendation services.

On December 31, 2021, the National Information Security Standardization Technical Committee issued the Practical Guidance on Cybersecurity Standard — the Guideline on Network Data Classification and Grading (《網絡安全標準實踐指南—網絡數據分類分級指引》), which provide guidance on data classification and grading.

On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) which has become effective on September 1, 2022. Such data export measures requires that any data processor which processes or exports personal information exceeding certain volume threshold under such

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measures shall apply for security assessment by the CAC before transferring any personal information abroad, including the following circumstances: (i) important data will be provided overseas by any data processor; (ii) personal information will be provided overseas by any operator of critical information infrastructure or any data processor who processes the personal information of more than 1,000,000 individuals; (iii) personal information will be provided overseas by any data processor who has provided the personal information of more than 100,000 individuals in aggregate or has provided the sensitive personal information of more than 10,000 individuals in aggregate since January 1 of last year; and (iv) other circumstances where the security assessment is required as prescribed by the CAC. A data processor shall, before applying for the security assessment of an outbound data transfer, conduct a self-assessment of the risks in the outbound data transfer. The security assessment of a cross-border data transfer shall focus on assessing risks that may be brought about by the cross-border data transfer to national security, public interests, or the lawful rights and interests of individuals or organizations.

Pursuant to the Ninth Amendment to the Criminal Law (《刑法修正案(九)》), issued by the SCNPC on August 29, 2015, which became effective on November 1, 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 (a) illegally selling or providing personal information to third parties, or (b) stealing or illegally obtaining any personal information.

On July 6, 2021, the relevant PRC government authorities made public the Opinions on Strictly Combatting Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), or the July 6 Opinion, which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies. Along with the promulgation of the July 6 Opinion, laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process.

On September 17, 2021, the CAC, together with eight other departments, issued the Guidance Opinions on Strengthening the Comprehensive Governance of Internet Information Service Algorithms (《關於加強互聯網信息服務算法綜合治理的指導意見》), effective on the same day, providing that an algorithm security comprehensive governance pattern shall be gradually established in the coming three years. According to this Guidance Opinions, enterprises should establish algorithmic security responsibility system and scientific and technological ethics review system, improve the algorithm security management organization, strengthen risk prevention and trouble detection, improve the ability and level of responding to algorithmic security emergencies. Enterprises should also strengthen the sense of responsibility and take the main responsibility for the results produced by the application of algorithms.

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Regulations on Privacy Protection

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. On May 28, 2020, the National People's Congress adopted the Civil Code (《民法典》), which came into effect on January 1, 2021. The Civil Code provides in a stand-alone chapter of right of personality and reiterates that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such person information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

On December 29, 2011, the MIIT issued The Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序的若干規定》), 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 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 (《關於加強網絡信息保護的決定》) 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 (《電信和互聯網用戶個人信息保護規定》), or the Regulations on Personal Information Protection, which took effect on September 1, 2013, to 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.

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With respect to the security of information collected and used by operators of mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which was issued on January 23, 2019, the operators shall collect and use personal information in compliance with the Cybersecurity Law and be responsible for the security of personal information obtained from users and take effective measures to strengthen the protection of personal information.

Furthermore, in order to improve the protection of personal information, the National Information Security Standardization Technical Committee also issued the Guide to Self-evaluation of Collection and Use of Personal Information by Mobile Internet Applications (Apps) (《移動互聯網應用程序(APP)收集使用個人信息自評估指南》) on July 22, 2020 regarding the security of information collected and used by operators of mobile apps. On March 12, 2021, the CAC, the MIIT, the MPS and the SAMR collectively promulgated the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》), which came into effect on May 1, 2021. The notice clarifies that network operators shall not collect personal information irrelevant to the services they provide, and the app operators shall not refuse to provide basic services to users on the ground of users' refusal to provide their personal non-essential information. In particular, as for online communities apps, the necessary personal information includes mobile phone numbers of registered users, and as for online streaming and online video apps, the basic functional services should be accessible without collecting personal information from users.

Furthermore, the CAC promulgated the Administrative Provisions on Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》), or the Mobile Application Administrative Provisions, and further revised it on June 14, 2022, which became effective on August 1, 2022. Pursuant to the Mobile Application Administrative Provisions, mobile internet app providers refer to the owners or operators of mobile internet apps. A mobile internet app provider must verify a user's mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. A mobile internet app provider must not enable functions that can collect a user's geographical location information, access user's contact list, activate the camera or recorder of the user's mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant apps, unless it has clearly indicated to the user and obtained the user's consent on such functions and apps. Mobile internet app providers shall not compel users to agree to non-essential personal information collection out of any reason and are prohibited from banning users from their basic functional services due to the users' refusal of providing non-essential personal information.

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On April 10, 2019, the MPS issued the Guidelines for Internet Personal Information Security Protection (《互聯網個人信息安全保護指南》), which is applicable to entities or individuals who control and process personal information by providing services through the Internet, private networks or non-networked environments, and require such entities and individuals to establish personal information management systems, implement technical protection measures and protect personal information in business processes.

The SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), or the Personal Information Protection Law on August 20, 2021, which entered into force on November 1, 2021. According to the Personal Information Protection Law, personal information is all kinds of information, recorded by electronic or other means, related to identified or identifiable natural persons, not including information after anonymization handling. The principles of legality, propriety, necessity, and sincerity shall be observed for personal information handling. Moreover, the Personal Information Protection Law specifically specified the rules for handling sensitive personal information, which means personal information that, once leaked or illegally used, may easily cause harm to the dignity of natural persons or grave harm to personal or property security, including information on biometric characteristics, financial accounts and individual location tracking, as well as the personal information of minors under the age of 14. Personal information handlers shall bear responsibility for their personal information handling activities, and adopt the necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered to correct or suspend or terminate the provision of services, confiscation of illegal income, fines or other penalties. Any personal information processor outside the territory of the PRC under the circumstance where the activities of domestic natural persons are analyzed and evaluated shall establish a special agency or designate a representative within the territory of the PRC to be responsible for handling matters relating to personal information protection. Where a personal information processor really needs to provide personal information outside the territory of the People's Republic of China due to business or other needs, it shall meet one of the conditions prescribed by the Personal Information Protection Law, such as, passing the security evaluation organized by the CAC, or other conditions prescribed by laws, administrative regulations or the CAC. Where an overseas organization or individual engages in the personal information processing activities infringing upon the personal information rights and interests of PRC citizens or endangering the national security and public interests of the PRC, the CAC may include such organization or individual in the list of subjects to whom provision of personal information is restricted or prohibited, announce the same, and take measures such as restricting or prohibiting provision of personal information to such organization or individual.

On June 27, 2022, the CAC issued the Administrative Provisions on the Account Information of Internet Users (《互聯網用戶賬號信息管理規定》), or the Internet Users Account Information Provisions, which became effective on August 1, 2022. Pursuant to the Internet Users Account Information Provisions, Internet-based information service providers that provide internet users with information release services, shall formulate and make public the rules for the management of accounts of Internet users and platform conventions, enter into service agreements with Internet users, and shall authenticate the real identity information of

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the users who apply for registration of accounts for production of information content in the fields of economy, education, medical care and health, justice, etc., Internet-based information service providers shall require them to provide relevant materials such as service qualification, professional qualification and professional background, verify the same and add a special mark to the account information. Any Internet-based information service provider in violation of the present Provisions shall be punished in accordance with relevant laws and administrative regulations.

Our PRC Legal Advisors are of the view that the Group has adopted necessary measures with respect to the data security and cybersecurity according to the applicable PRC laws and regulations, and they are not aware of any material non-compliance by the Group of the data security, cybersecurity or personal information protection under the current PRC laws and regulations. However, since many of the PRC laws and regulations on cybersecurity and privacy and data privacy are constantly evolving, there are uncertainties as to the interpretation and application of these regulations and how these will be enforced by relevant regulatory authorities, there also remain uncertainties as to the applicability and requirements of these regulations for our business, operation, or our presence in Mainland China. We cannot assure you that the measures we have taken or will take in the future will be effective or fully satisfy the relevant regulatory authorities' requirements, and any failure or perceived failure by us to comply with such laws and regulations may result in governmental investigations, fines, removal of our app from the relevant application stores and/or other sanctions on us and may affect our clients and users in conducting investment activities on the Group's platform, which, in each case, may have adverse effect on our provision of service to PRC-based clients.

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 copyrights may be entitled to better protections.

Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》), adopted in 1982 and last amended in 2019, as well as the Implementation Regulation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) 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 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

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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 (《中華人民共和國著作權法》), which was last amended on November 11, 2020 and such amendment became effective on June 1, 2021, and the Implementation of Copyright Law of PRC (《中華人民共和國著作權法實施條例》), was last amended 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 (《信息網絡傳播權保護條例》), as amended on January 30, 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 (《互聯網域名管理辦法》), 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 MIIT on Regulating the Use of Domain Names in Providing Internet based Information Services (《關於規範互聯網信息服務使用域名的通知》) 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

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Law of the PRC (《中華人民共和國反恐怖主義法》) and the Cybersecurity Law, 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 (《中華人民共和國專利法》) in 1984 and last amended on October 17, 2020 and such amendment became effective on June 1, 2021. 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 China National Intellectual Property Administration is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention, a ten-year term for a utility model and a fifteen-year term for a utility 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 (《中華人民共和國外匯管理條例》), which was promulgated in 1996 and last amended in August 2008. Under the PRC Foreign Exchange Administration Regulations, Renminbi is freely convertible into foreign currencies without prior approval from SAFE for payments of current account items, such as distribution of dividends, interest payments and trade and service-related foreign exchange transactions. 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 (《關於進一步改進和調整直接投資外匯管理政策的通知》), or the SAFE Circular 59 promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and last amended on December 30, 2019, 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.

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On March 30, 2015, 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 (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which became effective on June 1, 2015 and was amended on December 30, 2019, 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 (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》). 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 (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), 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. On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), or SAFE Circular 28, which expressly allows non-investing foreign-invested enterprises that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments provided that the investments are bona fide investments and comply with the foreign investment-related laws and regulations.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit of more than USD50,000 from domestic entities to offshore entities, including that banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements. Besides, SAFE Circular 3 also requires domestic entities to hold their 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.

According to the SAFE Circular on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》), which was promulgated and became effective on April 10, 2020, the reform to facilitate payment of income under capital accounts shall be extended nationwide. Enterprises, if they meet the bona fide and compliant use of funds requirements under the

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prevailing administrative provisions on use of income from capital projects, may use income under capital accounts, such as capital funds, proceeds from issuance of foreign debt and overseas listing, in domestic payment without the need to provide banks with verification materials for each transaction.

Regulations on Dividend distribution

The principal regulations governing distribution of dividends of foreign-owned enterprises include the Company Law of the PRC (《中華人民共和國公司法》), and the Foreign Investment Law (《中華人民共和國外商投資法》). 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 surplus 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 (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), 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. 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

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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.

In February 2015, SAFE promulgated the Circular of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Circular 13, which became effective on June 1, 2015 and amended on December 30, 2019. 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.

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 (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), 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.

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 (《關於外國投資者併購境內企業的規定》), 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.

In addition, pursuant to the Circular of the General Office of State Council on Establishing the Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》) issued by the General Office of the State Council on February 3, 2011 and took effect on March 3, 2011 and the Provisions of the Ministry of Commerce on the Implementation of

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the Safety Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) issued by the MOFCOM that became effective in September 2011, mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. On July 6, 2021, the General Office of the State Council and General Office of the Central Committee of the Communist Party of China issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). The opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

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 (《中華人民共和國企業所得稅法》), which was most recently amended on December 29, 2018.

On December 6, 2007, the State Council enacted the Regulations for the Implementation of the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), which was amended on April 23, 2019, 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.

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Pursuant to the EIT Laws and relevant implementing regulations, a High and New Technology Enterprise, or HNTE, is subject to a reduced enterprise income tax rate of 15%. Pursuant to the EIT Laws and other relevant implementing regulations, an entity qualified as software enterprise, or SE, is entitled to an exemption from income taxation for the first two years, counting from the first year the entity makes a profit, and a reduction of half EIT tax rate for the next three years.

Regulations on Value-added Tax

The Provisional Regulations of on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993, which most recently amended on November 19, 2017. The Implementation Rules for the Implementation of Provisional Regulations of on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) were promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, and the latest amendment became into effect on November 1, 2011. Based on the Provisional Regulations of on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) and the Implementation Rules for the Implementation of Provisional Regulations of on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》), 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 (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》), on November 19, 2019, 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 (《關於調整增值稅稅率的通知》). 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.

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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 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 (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), 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 (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), or the SAT Circular 81, effective 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 (《關於稅收協定中“受益所有人”有關問題的公告》), which was 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 a very 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 (《非居民納稅人享受協定待遇管理辦法》), which was issued by the SAT on October 14, 2019 and became effective on January 1, 2020.

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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 (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), 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 Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), or SAT Circular 37, last amended on June 15, 2018 and such amendment became effective on the same day, 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 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 in PRC

The principle regulations that govern employment and labor matters in PRC include: (i) Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994 and last amended on December 29, 2018; (ii) the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) which was promulgated by the SCNPC on June 29, 2007 and last amended on December 28, 2012, and (iii) the Implementing Regulations of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated by the State Council on September 18, 2008.

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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 in PRC

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 (《中華人民共和國社會保險法》) promulgated by the SCNPC on October 28, 2010 and amended on December 29, 2018, 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 (《住房公積金管理條例》) promulgated by the State Council on April 3, 1999, and last amended on March 24, 2019, 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 (《中華人民共和國個人所得稅法》) 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.

Regulations on Anti-Monopoly Matters related to Internet Platform Companies

The Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》), which was promulgated by the SCNPC on August 30, 2007 and took effect on August 1, 2008, On June 24, 2022, the SCNPC revised the Anti-monopoly Law which became effective on August 1, 2022. The Anti-monopoly Law prohibits monopolistic conduct, such as entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition.

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The PRC Anti-monopoly Law requires that the Anti-monopoly law enforcement agency be notified in advance of any transaction where the parties' turnover in the China market and/or global market exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the target as a result of the business combination. As further clarified by the Provisions of the State Council on the Threshold of Filings for Undertaking Concentrations (《國務院關於經營者集中申報標準的規定》) issued by the State Council in 2008 and amended in September 2018, such thresholds include: (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion in the preceding fiscal year and at least two of these operators each had a turnover of more than RMB400 million within China in the preceding fiscal year, or (ii) the total turnover within China of all the operators participating in the transaction exceeded RMB2 billion in the preceding fiscal year, and at least two of these operators each had a turnover of more than RMB400 million within China in the preceding fiscal year. There are numerous factors the Anti-monopoly law enforcement agency considers in determining "control" or "decisive influence," and, depending on certain criteria, the Anti-monopoly law enforcement agency may conduct Anti-monopoly review of transactions in respect of which it was notified.

On September 11, 2020, the Anti-monopoly Commission of the State Council issued the Anti-monopoly Compliance Guideline for Operators (《經營者反壟斷合規指南》), which requires, under the PRC Anti-monopoly Law, operators to establish Anti-monopoly compliance management systems to prevent Anti-monopoly compliance risks.

On February 7, 2021, the Anti-monopoly Commission of the State Council published the Guidelines to Anti-Monopoly in the Field of Internet Platforms (《關於平台經濟領域的反壟斷指南》), or the Anti-Monopoly Guidelines for Internet Platforms. The Anti-Monopoly Guidelines for Internet Platforms prohibits certain monopolistic acts of Internet platforms so as to protect market competition and safeguard interests of users and undertakings participating in Internet platform economy, including without limitation, prohibiting platforms with dominant position from abusing their market dominance (such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, using bundle services to sell services or products).

On November 15, 2021, the SAMR published the Overseas Anti-monopoly Compliance Guidelines for Enterprises (《企業境外反壟斷合規指引》), which is aimed at helping PRC companies establish and strengthen overseas anti-monopoly compliance systems to reduce overseas anti-monopoly compliance risks. The Guidelines apply to both PRC enterprises that conduct business and operation overseas and PRC enterprises that conduct business and operations in the PRC and may have certain impacts on overseas markets, in particular for those that conduct import and export trade, overseas investments, acquisition, transfer or license of intellectual properties and tendering and bidding activities.

On December 24, 2021, the NDRC and other eight governmental authorities jointly issued the Opinions on Promoting the Standardized, Healthy and Sustainable Development of the Platform Economy (《國家發展改革委等部門關於推動平台經濟規範健康持續發展的若干意見》) which provide guidelines on regulating various aspects of online platform businesses in

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China, including, among other, anti-monopoly, unfair competition, platform-related price behaviors, investments in financial institutions and user data issues in the internet platform economy, to promote the industry's sound and sustained development.

Anti-unfair Competition Law

Competition among business operators is generally governed by the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), or the Anti-unfair Competition Law (《反不正當競爭法》), which was promulgated by the SCNPC on September 2, 1993 and amended on November 4, 2017 and April 23, 2019 respectively. According to the Anti-unfair Competition Law, when trading on the market, operators must abide by the principles of voluntariness, equality, fairness and honesty and observe laws and business ethics. Acts of operators constitute unfair competition where they contravene the provisions of the Anti-unfair Competition Law and disturb market competition with a result of damaging the lawful rights and interests of other operators or consumers. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it may institute proceedings in a People's court. In comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-unfair Competition Law and causes damage to another operator, it will be responsible for compensating for the damages.

OVERVIEW OF THE LAWS AND REGULATIONS RELATING TO OUR BUSINESS AND OPERATIONS IN THE UNITED STATES

As SEC-registered broker-dealers, Moomoo Financial Inc. and Futu Clearing Inc. are subject to various laws and regulations in the United States. This overview summarizes certain material aspects of those laws and regulations as they pertain to Moomoo Financial Inc. and Futu Clearing Inc.

Licensing

Broker-dealers operating in the United States are, with limited exceptions, required to register with the SEC. Registration with the SEC is conditioned upon the broker-dealer becoming a member in good standing of FINRA. There are not separate categories of broker-dealer registration with the SEC. However, a broker-dealer's membership agreement with FINRA will specify the nature of the business which may be conducted by the broker-dealer. Any material changes in the broker-dealer's business must be approved by FINRA. Moomoo Financial Inc. is currently authorized to conduct business as an introducing broker, engaging in transactions in domestic equity securities, mutual funds and options as well as foreign securities. It is also authorized to act as an underwriter or selling group participant in offerings of corporate securities other than mutual funds. Futu Clearing Inc. is currently authorized to conduct business as a clearing broker in equity securities and options and to arrange transactions in listed and over-the-counter securities.

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In addition to SEC and FINRA registration, broker-dealers in the United States are required to register with certain states, based upon the location of their business facilities and the nature of their operations in any particular state. However, while state governments may require registration and prosecute misconduct, they are generally prohibited from imposing additional regulatory requirements on broker-dealers.

The principals and employees of U.S. broker-dealers are also required to be licensed with FINRA and the applicable states unless their conduct is limited to ministerial activities. There are a variety of individual license categories for both supervisors and other employees, each of which requires the individual to pass a specific examination.

All broker-dealers in the United States are also required to become members of the Securities Investor Protection Corporation, or the SIPC, which insures customer accounts against losses (subject to a cap) that result from the broker-dealer's failure. SIPC does not insure against investment losses.

Net Capital and Customer Protection

Broker-dealers in the United States are required to maintain minimum net capital in accordance with SEC Rule 15c3-1. The computation of net capital is intended to determine the broker-dealer's liquidity and requires various adjustments to GAAP net worth. The amount of required net capital varies based upon the nature and scope of the broker-dealer's business. Clearing brokers that carry customer accounts typically have substantially higher net capital requirements than introducing brokers. Broker-dealers that fall out of compliance with the net capital requirements must immediately correct the shortfall or suspend doing business until they are again in compliance with the requirements.

Rule 15c3-3, the SEC's customer protection rule, requires broker-dealers who have custody of client assets to establish a segregated bank account for the exclusive benefit of its customers. The rule also requires broker-dealers to obtain possession or control of securities carried by the broker-dealer for the account of clients, places limitations on the ability of a broker-dealer to access client funds or securities for use in the broker-dealer's business and delineates the requirements for directing free credit balances in a customer account to a bank pursuant to a sweep program. Rule 15c3-3 also delineates requirements for broker-dealers who want to lend fully paid or excess margin securities held in a customer's account.

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Margin Lending

Margin lending by broker-dealers is subject to the margin rules adopted by the Federal Reserve Board (“**Regulation T**”) and certain FINRA rules. Futu customers in the U.S. generally trade through margin accounts. Regulation T provides that broker-dealers may only extend credit for the purchase of “margin securities”; generally securities traded on a recognized stock exchange. The initial extension of credit may not exceed 50% of the value of the securities to be purchased. Regulation T requires broker-dealers to impose trading restrictions on accounts that fail to make timely payment for securities.

FINRA rules supplement Regulation T, particularly with respect to the maintenance margin required. In addition, broker-dealers are free to impose their own margin requirements that are more restrictive than those required by Regulation T or FINRA.

Before a customer may trade on margin, the broker-dealer must provide the customer with extensive disclosure about the risks of margin trading and the customer must agree in writing to the margin terms offered by the broker-dealer.

Know Your Customer; Anti-Money Laundering

Under the Bank Secrecy Act and related SEC and FINRA rules, broker-dealers are required to guard against money laundering and terrorist financing. This requires broker-dealers to implement a customer identification program to verify a customer’s identity and to determine if a proposed customer is on any lists of restricted persons with whom business is prohibited. In addition, broker-dealers must adopt and enforce a written anti-money laundering compliance program, reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act and its implementing regulations. Such programs must include policies and procedures that: (i) can be reasonably expected to detect and cause the reporting of suspicious transactions; (ii) provide for independent testing for compliance, (iii) designate and identify an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program and (iv) provide ongoing training for appropriate broker-dealer personnel.

Disclosures to Clients

All broker-dealers that provide any brokerage services to retail customers must provide the customers with certain disclosures on Form CRS. Disclosures in the Form CRS include the nature of the services offered by the broker-dealer, fees and charges, conflicts of interest and whether or not any of the broker-dealer’s personnel have been subjected to disciplinary proceedings. The Form CRS must also be filed with the SEC and made available on the broker-dealer’s website.

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Broker-dealers are also required to disclose to their clients in new account documentation and/or through their website various matters such as the risks of investing in foreign securities, the risks of margin trading, the risks of investing in penny stocks, the risks of day trading, any arrangements the broker-dealer may have for payment for order flow and the broker-dealer's business continuity plan.

SEC and FINRA rules require broker-dealers to provide clients with trade confirmations that comply with the requirements of SEC Rule 10b-10. In addition, clients must be provided with an account statement not less than once a quarter. Clients may consent to electronic delivery of confirmations, statements and other communications from the broker-dealer.

Sales Practices

SEC and FINRA rules prohibit the use of false, deceptive and misleading sales practices. The SEC and FINRA are currently conducting an industry-wide review to determine if certain digital engagement practices used by broker-dealers improperly incentivize customers to undertake excessive or risky trading. Following this review, the SEC and/or FINRA might adopt new rules regulating digital engagement practices by broker-dealers.

Because neither Moomoo Financial Inc. nor Futu Clearing Inc. make investment recommendations or otherwise solicit specific trading actions, they are not required to comply with the "best interest" provisions of SEC Regulation BI or FINRA's suitability requirements.

Best Execution

The SEC and FINRA require broker-dealers that execute trades, like Futu Clearing Inc., to use reasonable diligence to obtain for their clients the most favorable terms available under prevailing market conditions. In determining how to best execute an order, the broker-dealer may consider the size of the order, the availability of the security in various markets, liquidity, timing and any other requirements of the client. Broker-dealers that receive third party payments for order flow must ensure that such arrangements do not compromise their duty of obtaining best execution for their clients.

Participation in Underwritten Offerings

Broker-dealers that act as underwriters or selling group members in SEC-registered, underwritten offerings are required to comply with various SEC rules governing such offerings. Such requirements include a prohibition on accepting customer orders prior the SEC declaring the relevant registration statement effective, limitations on the timing and content of marketing materials that may be used in connection with the offering, and restrictions on trading activity during the period immediately preceding and following a new issue or an underwritten offering for a thinly traded stock.

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Prevention of Insider Trading

All broker-dealers are required to adopt policies and procedures intended to prevent unlawful trading based on material, non-public information. Neither broker-dealers nor their employees may use material non-public information obtained in the course of their business to trade securities or to provide trading tips to other persons. Such policies and procedures should include a clear statement of the policy provided to all personnel, on-going training, procedures to monitor trading by all personnel and, as appropriate, internal information barriers to prevent the sharing of material non-public information with persons who do not need access to such information.

Protecting Privacy of Customer Data and Information

Regulation S-P requires broker-dealers to provide their customers with a copy of their privacy policy, which describes among other things what non-public information about customers is collected by the broker-dealer, and what non-public information might be shared with affiliates or third parties. With limited exceptions, customers must be provided with an opportunity to opt out of disclosures to third parties. Certain states such as California have imposed additional privacy requirements.

Regulation S-P also requires broker-dealers to adopt policies and procedures designed to safeguard customer data and records from unauthorized access. Broker-dealers are required to implement appropriate cybersecurity measures that include administrative, technical and physical safeguards. The cybersecurity measures must be periodically tested for effectiveness. Regulatory authorities in the United States have recently increased their scrutiny of the programs implemented by broker-dealers to prevent cybersecurity breaches or unauthorized access to customer accounts.

Records and Reporting

SEC-registered broker-dealers are subject to extensive recordkeeping and reporting requirements. SEC Rule 17a-3 specifies a range of records that must be maintained, including trading and customer account records, financial records and net capital computations, employee records and copies of all advertisements and written communications with customers. In addition, broker-dealers must ensure that all of their email communications relating to the broker-dealer's business are transmitted using authorized systems and are archived for future access.

All required records must be preserved for various periods of time specified in SEC Rule 17a-4. Generally, records may be preserved electronically, as long as the electronic system satisfies minimum standards to ensure the records are accessible and not subject to alteration. Certain records may be maintained with third party providers, including cloud services, if the third party agrees to make the records available to the SEC and other regulatory authorities upon request.

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Broker-dealers must file with the SEC annual reports that include audited financial systems, as well as quarterly financial reports. In addition, net capital computations must be filed on a quarterly or monthly basis, depending upon the nature of the broker-dealer's business. An additional annual filing is required with FINRA to address the firm's compliance with its regulatory obligations.

U.S. broker-dealers are also required to report to the SEC and FINRA most customer complaints and legal actions. The broker-dealer must update the reporting to disclose how the matter was resolved.

Supervision

All SEC-registered broker-dealers must adopt written supervisory procedures and implement supervisory controls and procedures designed to enable the broker-dealer to monitor and enforce compliance with applicable regulatory requirements. Such supervisory procedures are required not only by FINRA rules, but also to protect the broker-dealer against customer claims or regulatory sanctions based on the misconduct of its supervised personnel. Supervisory procedures should include, among other things, a designated chief compliance officer, internal inspections, reviews of correspondence and emails, periodic monitoring of customer activity and reasonable investigations of new hires. The broker-dealer must also prohibit its employees from engaging in outside business activities or from maintaining outside securities accounts unless such activity has been disclosed to and approved by the broker-dealer. Broker-dealers are required to review and approve advertising materials that promote their business, including materials prepared or disseminated by affiliates or third party contractors. The broker-dealer must also ensure that it implements an appropriate training program for its personnel that complies with specific requirements delineated by FINRA.

Regulatory Oversight

Broker-dealers conducting business in the United States may be examined at any time by officials from the SEC, FINRA or any state in which the broker-dealer is licensed. Following an examination, the regulatory authority will usually issue a written report discussing any identified deficiencies. The broker-dealer is provided an opportunity to respond to the report. While most deficiencies are resolved through mutually agreed corrective actions, more serious violations may be referred for administrative or civil proceedings. Such proceedings may result in the imposition of fines, cease and desist orders, disgorgement orders, the suspension of personnel or lines of business or the revocation of licenses to conduct business. While broker-dealers have the right to contest proceedings brought against them by regulatory authorities, as a practical matter most such proceedings are resolved through a negotiated settlement. The resolution is a public record, unless the sanction is a fine of US\$2,500 or less. Under the Exchange Act, a broker-dealer and its principals may be held responsible for misconduct committed by persons under their supervision. It is fairly common in regulatory enforcement proceedings for a broker-dealer and its supervisory personnel to be sanctioned whenever there has been serious misconduct by any of the broker-dealer's personnel.

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OVERVIEW OF THE LAWS AND REGULATIONS RELATING TO OUR BUSINESS AND OPERATIONS IN SINGAPORE

As we provide online brokerage services in Singapore through our subsidiary, Moomoo Financial Singapore, our business operations are subject to the laws of Singapore. The key laws and regulations which relate to our business and operations in Singapore are summarized as follows:

Regulatory Requirements under the Securities and Futures Act

The Securities and Futures Act 2001 of Singapore (2020 Revised Edition) (the “SFA”) is the principal legislation regulating activities and institutions in the securities and derivatives industry in Singapore.

The SFA is administered by the Monetary Authority of Singapore (the “MAS”), which is Singapore’s central bank and integrated financial regulator. As an integrated financial supervisor, the MAS has oversight of all financial institutions in Singapore, including banks, insurers, capital market intermediaries (such as Moomoo Financial Singapore), and financial advisors. To this end, the MAS also establishes rules for such financial institutions which are implemented through legislation, regulations, directions and notices. MAS guidelines are also formulated and published to encourage best practices among financial institutions in Singapore.

In particular, Part 4 of the SFA provides for the licensing and regulation of certain regulated activities typically carried out by capital markets intermediaries (such as Moomoo Financial Singapore).

Types of Regulated Activities under Part 4 of the SFA

Part 4 of the SFA governs the conduct of regulated activities typically carried out by capital market intermediaries. Under Section 82(1) of the SFA, a person carrying on business in a regulated activity is required to hold a Capital Markets Services Licence (“CMSL”), issued by the MAS, unless an exemption applies. The CMSL system is a modular licensing system, in that an entity will hold one single CMSL covering the different types of regulated activities under the SFA which it engages or intends to engage in.

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The categories of activities regulated under the SFA are set out under Part 1 of the Second Schedule to the SFA as follows:

- (1) dealing in capital markets products;
- (2) advising on corporate finance;
- (3) fund management;
- (4) real estate investment trust management;
- (5) product financing;
- (6) providing credit rating services; and
- (7) providing custodial services.

It is an offence for a person to carry on business, or hold himself out as carrying on business, in any regulated activity without the appropriate licence issued by the MAS.

In addition, where a CMSL has been granted by the MAS, the grant may be subject to such conditions and restrictions as the MAS thinks fit. It is an offence for a person to contravene any such condition or restriction in the licence.

Activities which Moomoo Financial Singapore is Licensed to Conduct in Singapore

As at the Latest Practicable Date, Moomoo Financial Singapore holds a CMSL (License No. CMS101000) and is licensed under the SFA to conduct the following regulated activities:

- (1) dealing in capital markets products;
- (2) product financing; and
- (3) providing custodial services.

Under the SFA, “capital markets products” include, amongst others, securities,⁽¹⁾ units in a collective investment scheme, derivatives contracts, and spot foreign exchange contracts for the purposes of leveraged foreign exchange trading. The term “dealing in capital markets products” in turn means (whether as principal or agent) making or offering to make with any person, or inducing or attempting to induce any person to enter into or to offer to enter into any agreement for or with a view to acquiring, disposing of, entering into, effecting, arranging, subscribing for, or underwriting any capital markets product. This definition thus captures both the role of executing transactions involving capital markets products as well as the role of

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soliciting transactions involving capital markets products. Currently, under the CMSL granted to it, Moomoo Financial Singapore may carry on business in dealing in capital markets products only in respect of securities, units in a collective investment scheme and exchange-traded derivatives contracts.

“Product financing” is described under the SFA as referring generally to providing any credit facility, advance or loan to facilitate (directly or indirectly) the subscription or purchase of specified products⁽²⁾ listed or to be listed on an organised market,⁽³⁾ the purchase of specified products prescribed by the MAS, or the continued holding of such specified products (whether or not the specified products are pledged as security).

Notes:

- (1) Under the SFA, the term “securities” generally refers to shares, debentures, and units in a business trust or any instrument conferring or representing a legal or beneficial ownership interest in a corporation, partnership or limited liability partnership.
- (2) Under the SFA, “specified products” means securities, specified securities-based derivatives contracts or units in a collective investment scheme.
- (3) “Organised market” typically refers to securities exchanges, and is defined under the SFA to mean (among other things), a place at which, or a facility (whether electronic or otherwise) by means of which, offers or invitations to exchange, sell or purchase derivatives contracts, securities or units in collective investment schemes, are regularly made on a centralised basis, being offers or invitations that are intended or may reasonably be expected to result, whether directly or indirectly, in the acceptance or making, respectively, of offers to exchange, sell or purchase derivatives contracts, securities or units in collective investment schemes (whether through that place or facility or otherwise). The term however does not include a place or facility used by only one person to regularly make offers or invitations, or to regularly accept offers, to sell, purchase or exchange derivatives contracts, securities or units in collective investment schemes.

“Providing custodial services” is described under the SFA to mean broadly, in relation to specified products, providing or agreeing to provide any service where the person providing the service has, under an arrangement with another person (the customer), possession or control of the specified products of the customer and carries out one or more of the following functions for the customer:

- (a) settlement of transactions relating to the specified products;
- (b) collecting or distributing dividends or other pecuniary benefits derived from ownership or possession of the specified products;
- (c) paying tax or other costs associated with the specified products;
- (d) exercising rights, including without limitation voting rights, attached to or derived from the specified products; and
- (e) any other function necessary or incidental to the safeguarding or administration of the specified products.

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The CMSL granted to Moomoo Financial Singapore by the MAS is subject to certain conditions.⁽⁴⁾

Notes:

(4) The conditions are as follows:

1. Moomoo Financial Singapore shall obtain the prior approval of the MAS for any change of its members or shareholdings of its members which will result in any person, alone or acting together with any connected person, being in a position to control not less than 20% of the voting power in Moomoo Financial Singapore or to hold interest in not less than 20% of the issued shares of Moomoo Financial Singapore. Moomoo Financial Singapore shall immediately notify the MAS of any other changes of its members or shareholding of its members.
2. Moomoo Financial Singapore shall inform MAS of (i) the resignation of its chief executive officer or any of its directors; (ii) any change in the nature of appointment or country of residence of the chief executive officer or any of its directors; and (iii) any change in the business interests or shareholdings of its chief executive officer or any of its directors provided to the MAS in the prescribed form.
3. Moomoo Financial Singapore shall not acquire or hold, whether directly or indirectly, an interest of 20% or more of the share capital of any corporation, or establish any branch (whether in Singapore or elsewhere), without first obtaining the prior approval of MAS.
4. Moomoo Financial Singapore shall immediately inform MAS of any matter which may adversely affect its financial position to a material extent.
5. Moomoo Financial Singapore shall conduct its business in such a manner as to avoid conflicts of interests, and should such conflicts arise, shall ensure that they are resolved fairly and equitably.
6. Prior to the cessation of its business in the regulated activities for which it is licensed, Moomoo Financial Singapore shall ensure that its liabilities and obligations to all customers have been fully discharged or provided for.
7. Moomoo Financial Singapore shall immediately inform the MAS when it becomes aware of the occurrence of any of the following:
 - (i) where any offence is committed by or any disciplinary action is taken against Moomoo Financial Singapore or any of its officers or representatives, whether in Singapore or elsewhere;
 - (ii) where Moomoo Financial Singapore or any of its officers or representatives is the subject of an investigation or when any civil or criminal proceedings are instituted against Moomoo Financial Singapore or any of its officers or representatives, whether in Singapore or elsewhere;
 - (iii) where there is any breach of any laws or regulations, business rules or codes of conduct, whether in Singapore or elsewhere; or
 - (iv) any other matter that would affect Moomoo Financial Singapore or any of its officers' or representatives' ability to meet the criteria set out in the Guidelines on Fit and Proper Criteria issued by MAS.
8. Moomoo Financial Singapore shall produce its books to independent auditors to be selected by the MAS to conduct any audit on Moomoo Financial Singapore. All expenses arising from such audit shall be borne by Moomoo Financial Singapore.

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9. Moomoo Financial Singapore shall give written notice to MAS seven days prior to the execution of an agreement for the purchase, sale, merger or any other business combination of all or any part of the business (where such part could operate as a viable business enterprise if it were a stand-alone entity) in a regulated activity under the SFA for which its CMSL is granted. Where any transaction, as described in the foregoing, is not documented in an agreement, Moomoo Financial Singapore shall give written notice to MAS seven days prior to the execution of the transaction.
10. Moomoo Financial Singapore shall ensure that any person it employs or appoints to act as its representative in respect of any regulated activity for which Moomoo Financial Singapore is licensed to provide is an appointed, temporary or provisional representative in respect of that regulated activity.
11. Moomoo Financial Singapore shall not carry on any moneylending without the prior approval of the MAS.
12. Moomoo Financial Singapore shall inform MAS promptly when it has fewer than 2 full-time appointed representatives in respect of each relevant regulated activity under the SFA.
13. Moomoo Financial Singapore shall provide MAS with a Letter of Responsibility, Letter of Undertaking, Banker's Guarantee and/or Professional Indemnity Insurance, as may be required by MAS and in such form as MAS may require. Moomoo Financial Singapore shall ensure that such Letter of Responsibility, Letter of Undertaking, Banker's Guarantee and/or Professional Indemnity Insurance, as may be required by MAS, remain(s) in force as long as the licence remains valid.
14. Moomoo Financial Singapore and its representatives shall at all times, comply with all foreign laws and regulations that apply to the activities that they conduct.
15. Moomoo Financial Singapore must ensure that each of its appointed, temporary or provisional representatives only carries on business in dealing in capital markets products in respect of 1 or more types of capital markets product that are indicated against the name of that representative in the public register of representatives. The aforementioned "types of capital markets products" refer to each of the following classes:
 - (a) securities;
 - (b) units in a collective investment scheme;
 - (c) exchange-traded derivatives contracts;
 - (d) over-the-counter derivatives contracts; or
 - (e) spot foreign exchange contracts for the purposes of leveraged foreign exchange trading.
16. Moomoo Financial Singapore must notify the MAS of any addition to the list of capital markets products indicated against its appointed representative's name in the public register of representatives, by lodging a notice in a prescribed form and in the manner specified at <http://www.mas.gov.sg>.
17. Moomoo Financial Singapore shall, no later than the next business day after the day on which any of its appointed representatives, provisional representatives or temporary representatives has ceased to carry on business in dealing in capital markets products in respect of any or all types of capital markets products indicated against his name in the public register of representatives, notify the MAS by lodging a notice in the prescribed form and in the manner specified at <http://www.mas.gov.sg>.

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18. Where Moomoo Financial Singapore intends to carry on business in dealing in capital markets products in respect of any additional type of capital markets products other than securities, units in a collective investment scheme and exchange-traded derivatives contracts, Moomoo Financial Singapore must seek MAS' approval to deal in those additional types of capital markets products by lodging a notice in the prescribed form and in the manner specified at <http://www.mas.gov.sg>. The MAS may require Moomoo Financial Singapore to furnish it with such information or documents as the MAS considers necessary in relation to its request.
19. Where Moomoo Financial Singapore ceases carrying on business in dealing in capital markets products in respect of any type of capital markets products, but has not ceased to carry on business in dealing in capital markets products in the remaining types of capital markets products, Moomoo Financial Singapore must notify MAS of such cessation by lodging a notice in the prescribed form and in the manner specified at <http://www.mas.gov.sg>, by not later than 14 days from the date of cessation.
20. Where Moomoo Financial Singapore has commenced carrying on business in dealing in capital markets products in respect of some types of capital markets products but not others for which it is allowed to deal in under its licence by the end of the period of 6 months from the date on which its licence was granted (or such longer period as the MAS may allow in any particular case), Moomoo Financial Singapore must immediately lodge with the MAS a notice in the prescribed form.
21. Where the MAS varies the types of capital markets products in respect of which Moomoo Financial Singapore carries on business in dealing after receiving the request in condition 18 above, or the notifications in conditions 19 or 20 above, the MAS may issue a new licence to Moomoo Financial Singapore which reflects the types of capital markets products in respect of which it carries on business in dealing.
22. Moomoo Financial Singapore must carry on business in dealing in capital markets products only in respect of capital markets products that are securities, units in a collective investment scheme and exchange-traded derivatives contracts.
23. Moomoo Financial Singapore shall satisfy itself of compliance with all relevant laws and requirements in the relevant foreign jurisdictions, before it starts offering products and services to investors residing in that foreign jurisdiction.

Representatives, Directors, and CEO Requirements

Under Section 99B(1) of the SFA, individuals who are employed by or who are acting for a CMSL holder in Singapore to carry out the regulated activities are required to be appointed, provisional or temporary representatives under the SFA, unless exempted.

In addition, pursuant to the MAS Guidelines SFA 04-G01 on Criteria for the Grant of a Capital Markets Services Licence (last revised on August 2, 2022), Moomoo Financial Singapore is required to employ at least two full-time individuals as appointed representatives in respect of each of the regulated activities which it is being licensed to conduct. Moomoo Financial Singapore should also ensure a minimum of two directors on its board, at least one of whom is resident in Singapore. The chief executive officer of Moomoo Financial Singapore should also be resident in Singapore. The approval of the MAS should be obtained prior to the appointment of its chief executive officer, resident directors, and any director who is directly responsible for its business in Singapore.

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‘Fit and Proper’ Requirement

Persons applying to the MAS for a CMSL under the SFA, as well as its directors, representatives, and shareholders, must satisfy, and continue to satisfy after the grant of the CMSL by the MAS, that they are fit and proper persons. Generally, a fit and proper person means one who is financially sound, competent, honest, and has not been in breach of relevant laws and regulations. MAS administers this regime through a set of Fit and Proper Guidelines which all classes of regulated entities (including CMSL holders) are ordinarily expected to follow.

Base Capital Requirements

A corporation granted a CMSL in respect of regulated activities shall at all times meet the base capital requirement thresholds under the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations (“SF(FMR)R”), in respect of the regulated activities for which it is licensed to conduct. In view of this obligation, it would be prudent for the CMSL holder to maintain an additional capital buffer over and above the requisite base amount. The base capital requirement thresholds applicable to the regulated activities carried on by Moomoo Financial Singapore are set out under the First Schedule to the SF(FMR)R as follows:

<u>Regulated activity</u>	<u>Base capital requirement</u>
Dealing in capital markets products that are securities, units in a collective investment scheme or exchange-traded derivatives contracts and the applicant is not a member of an approved exchange. ⁽⁵⁾	S\$1 million
Carrying out product financing.	S\$1 million
Providing custodial services.	S\$1 million

Generally, where more than one base capital requirement is applicable to a CMSL holder, the highest of such base capital requirements will apply. Hence, the base capital requirement of Moomoo Financial Singapore is S\$1 million.

By Regulation 4 of the SF(FMR)R, a CMSL holder shall not cause or permit its base capital to fall below the base capital requirement applicable to it. Where the base capital falls below the base capital requirement or where the CMSL holder becomes aware that the base capital will fall below the base capital requirement, the MAS must be notified immediately.

Notes:

- (5) Under the SFA, an “approved exchange” means a corporation that is approved by the MAS under the SFA as an approved exchange. An example of such an approved exchange is the Singapore Exchange Securities Trading Limited, or SGX.

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Risk Capital Requirements

Furthermore, a CMSL holder shall at all times meet the risk-based capital requirement in the SF(FMR)R upon obtaining its licence. The particular capital requirements are generally based on various risk factors faced by the CMSL holder, and the risk measurements are proxied from various items of information within the CMSL holder's financial statements. In this regard, under Regulations 6 and 7 of the SF(FMR)R, a licensed corporation shall:

- (a) not cause or permit its financial resources (as defined in the SF(FMR)R and by notices issued by MAS) to fall below the total risk requirement (as defined in the SF(FMR)R and by notices issued by MAS); and
- (b) immediately notify the MAS if its financial resources fall below 120% of its total risk requirements.

Continuing Obligations

An entity licensed under Part 4 of the SFA would typically expect that various ongoing operational obligations would apply, in addition to any specific conditions which the MAS may impose when granting its licence. There are different ongoing business conduct compliance obligations depending on the relevant licensing category. In respect of Moomoo Financial Singapore, these include, but are not limited to, the following requirements under the Securities and Futures (Licensing and Conduct of Business) Regulations (“**SF(LCB)R**”):

- (a) maintenance of a minimum deposit sum of S\$100,000 with the MAS (Regulation 7 of the SF(LCB)R);
- (b) implement, and ensure compliance with, effective written policies on all operational areas, including financial policies, accounting and internal controls, and internal auditing (Regulation 13(b)(i) of the SF(LCB)R);
- (c) identify, address and monitor the risks associated with the trading or business activities (Regulation 13(b)(iii) of the SF(LCB)R);
- (d) ensure that its business activities are subject to adequate internal audit (Regulation 13(b)(iv) of the SF(LCB)R);
- (e) detailed book-keeping and record-keeping obligations (Regulation 39 of the SF(LCB)R);
- (f) provision of statements to customers (Regulation 40 of the SF(LCB)R); and
- (g) regulations on product advertisements (Regulation 46 of the SF(LCB)R).

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Licensing Regime under the Financial Advisers Act

For completeness, the provision of financial advisory services is regulated in Singapore under the Financial Advisers Act 2001 (2020 Revised Edition) (“**FAA**”), and its related subsidiary legislation.

Under Section 6(1) of the FAA, a person is not to act as a financial adviser in Singapore in respect of any financial advisory services unless he is authorised to do so in respect of that financial advisory service by a financial adviser’s licence (“**FAL**”), or is an exempt financial adviser. Further, under Section 6(4) of the FAA, a person who contravenes Section 6(1) will be liable on conviction to a maximum fine of S\$75,000 or imprisonment for a term of up to 3 years or both.

The term “financial adviser” generally refers to a person who carries on a business of providing any financial advisory service under the FAA. There are currently 3 types of financial advisory services under the FAA:

- a. advising others, either directly or through publications or writings, and whether in electronic, print or other form, concerning any investment product;⁽⁶⁾
- b. advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product; and
- c. arranging of any contract of insurance in respect of life policies (other than a contract of reinsurance).

As at the Latest Practicable Date, Moomoo Financial Singapore is an exempt financial adviser under the FAA, but has not commenced to conduct the above regulated activities in Singapore yet.

Notes:

- (6) Under the FAA, “investment product” includes any capital markets products, spot foreign exchange contracts other than for the purposes of leveraged foreign exchange trading, and any life policy.

Anti-Money Laundering And Counter-Terrorist Financing (“AML/CTF**”)**

Sector-specific requirements applicable to capital markets intermediaries

In Singapore, corporations which are licensed by the MAS are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Singapore as well as various notices and guidelines. In particular, Moomoo Financial Singapore as a CMSL holder will be required to comply with the Notice on Prevention of Money Laundering and Countering the Financing of Terrorism – Capital Markets Intermediaries (last revised on April 20, 2022) (“**SFA 04-N02**”) issued by the MAS, read together with the Guidelines to MAS Notice SFA 04-N02 (collectively, the “**AML/CTF Notices and Guidelines**”).

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The AML/CTF Notices and Guidelines establish a framework within which CMSL holders are to design and develop their own AML/CTF policies, procedures and controls to help prevent money laundering and terrorism financing in Singapore. A CMSL holder should, among other things:

- (a) take appropriate steps to identify, assess and update its money laundering and terrorism financing risks in relation to the launch or use of new products, new business practices, new delivery mechanisms, or new or developing technologies, and to ensure that appropriate measures and controls are implemented to mitigate and manage such risks;
- (b) conduct anti-money laundering and customer due diligence (“**CDD**”) checks on all new customers (extending to the beneficial owners, connected parties of the customer and persons appointed to act on the customer’s behalf), and update its CDD checks on existing customers from time to time;
- (c) perform such CDD checks where the licensed corporation first establishes business relations with any customer, where the licensed corporation undertakes any transaction of a value exceeding S\$20,000 for any customer who has not otherwise established business relations with it, where there is a suspicion of money laundering or terrorism financing, or where the licensed corporation has doubts about the veracity or adequacy of any information previously obtained;
- (d) reserve the right to request for such information as deemed necessary to verify the identity, tax status and/or source of payment of a customer in order to comply with any applicable law or regulation of any jurisdiction;
- (e) implement internal risk management systems, policies, procedures and controls to determine if particular business relations with or transactions for any customer presents a higher risk for money laundering or terrorism financing;
- (f) conduct on-going monitoring of activities of its customers 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;
- (g) conduct comprehensive on-going screening against the United Nations watch lists, other relevant money laundering and terrorism financing sources and lists and information provided by the MAS or other relevant authorities in Singapore; and
- (h) report transactions suspected to contain the proceeds of criminal conduct or that is connected in any way with money laundering, tax evasion or terrorist financing to the Suspicious Transactions Reporting Office and the MAS, and document the basis for its assessment and the decision to report the transaction.

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Aside from the AML/CTF Notices and Guidelines, Singapore's AML/CTF legal framework is governed by a patchwork of legal instruments. We set out below the key legislations in Singapore applicable to Moomoo Financial Singapore which concern money laundering and terrorist financing.

Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act

The Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act 1992 of Singapore (2020 Revised Edition) (“**CDSA**”) criminalises money laundering and organises money laundering offences into two main groups: drug-related offences and other criminal offences. In particular, Part 6 of the CDSA criminalises the laundering of proceeds generated by drug trafficking and criminal conduct via the following principal offences:

- (a) the assistance of another person in retaining, controlling or using the benefits of drug dealing or criminal conduct under an arrangement (whether by concealment, removal from jurisdiction, transfer to nominees or otherwise) (Sections 50(1) and 51(1) of the CDSA);
- (b) the concealment, conversion, transfer or removal from the jurisdiction, or the acquisition, possession or use of benefits of drug dealing or criminal conduct (Sections 53(1) and 54(1) of the CDSA);
- (c) the concealment, conversion, transfer or removal from the jurisdiction of another person's benefits of drug dealing or criminal conduct (Sections 53(2) and 54(2) of the CDSA);
- (d) the acquisition, possession or use of another person's benefits of drug dealing or criminal conduct (Sections 53(3) and 54(3) of the CDSA); and
- (e) the possession or use of any property that may be reasonably suspected of being benefits of drug dealing or criminal conduct, without a satisfactory account as to how the property had been occasioned (Section 55(1) of the CDSA).

Upon conviction of an offence under Sections 50, 51, 53, 54 and 55 of the CDSA, individuals will be liable to a maximum fine of S\$500,000 or imprisonment for a term of up to 10 years or both, while non-individuals will be liable to a maximum fine of S\$1 million or twice the value of the benefits of drug dealing or criminal conduct in respect of which the money laundering offence was committed, whichever is higher. If convicted under Section 55 of the CDSA, individuals will be liable to a maximum fine of S\$150,000 or imprisonment for a term of up to 3 years, or both, while non-individuals will be liable to a maximum fine of S\$300,000.

In addition to any criminal liability, the CDSA also allows for the confiscation of proceeds of crime. In particular, a confiscation, restraint or charging order may be made by the court in respect of realisable property. A confiscation order under Section 64 of the CDSA is an order for the defendant to pay an amount of money assessed to correspond to the value of

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the benefit he or she derived from drug dealing or criminal conduct, a restraint order under Section 19 serves to prohibit any person from dealing with realisable property, and a charging order under Section 20 (applicable to immovable property and to capital markets products) serves to secure payment of any amount payable under a confiscation order.

In terms of reporting requirements, Section 45(1) of the CDSA provides for the mandatory reporting of suspicious transactions when a person, in the course of his or her trade, profession, business or employment, knows or has reasonable grounds to suspect money laundering. Suspicious transaction reports are to be made to the Commercial Affairs Department of the Singapore Police Force. A failure to report a suspicious transaction would constitute an offence under Section 45(3) of the CDSA. Individuals will be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 3 years or to both, while non-individuals would be liable on conviction to a fine not exceeding S\$500,000.

The CDSA also provides for the offence of tipping-off. Section 57 of the CDSA provides that it is an offence if: (i) a person, who knows or reasonably suspects that an authorised officer is acting or proposing to act in a money laundering investigation, discloses, to a second person, any information that is likely to prejudice that investigation or proposed investigation; or (ii) a person, who knows or reasonably suspects that a suspicious transaction report has been filed, discloses to a second person, any information that is likely to prejudice any investigation that might be conducted following the suspicious transaction report. A contravention of Section 57 will lead to an offence, and a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 3 years or to both.

Terrorism (Suppression of Financing) Act

The Terrorism (Suppression of Financing) Act 2002 of Singapore (2020 Revised Edition) (“**TSOFA**”) implements within Singapore the provisions of the International Convention for the Suppression of Financing of Terrorism, as well as resolutions of the United Nations (“**UN**”) Security Council concerning terrorism-related sanctions. It broadly operates in parallel with the CDSA, and like the CDSA, it also provides for mandatory reporting of suspicious transactions. Transactions reported under the TSOFA are also made to the Commercial Affairs Department of the Singapore Police Force.

The TSOFA sets out various actions which are deemed terrorist financing acts and constitute offence under the TSOFA. Broadly speaking, the TSOFA criminalises the handling of terrorist property and the provision of services (including financial support) for terrorist activity. This effectively prohibits any and all dealings with terrorists and terrorist property, including the provision of services supporting terrorism. As such, financial institutions must ensure that they do not, inadvertently or otherwise, have dealings with persons or entities which have been designated as terrorists under the TSOFA.

The TSOFA also has a designation regime, whereby certain individuals and entities may be designated as terrorists by the Singapore government or by the UN Security Council.

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Sanctions

Within the financial sector, the United Nations sanctions are given effect to via regulations issued by the MAS pursuant to Section 27A of the Monetary Authority of Singapore Act 1970 of Singapore (2020 Revised Edition) (the “MAS Act”). As at the Latest Practicable Date, the MAS sanctions regulations which have been issued pursuant to Section 27A of the MAS Act are as follows:

- (a) MAS (Freezing of Assets of Persons – Democratic Republic of the Congo) Regulations 2006;
- (b) MAS (Freezing of Assets of Persons – Sudan) Regulations 2006;
- (c) MAS (Sanctions and Freezing of Assets of Persons – Somalia) Regulations 2010;
- (d) MAS (Sanctions and Freezing of Assets of Persons – Libya) Regulations 2011;
- (e) MAS (Freezing of Assets of Persons – South Sudan) Regulations 2015;
- (f) MAS (Freezing of Assets of Persons – Yemen) Regulations 2015;
- (g) MAS (Sanctions and Freezing of Assets of Persons – Democratic People’s Republic of Korea) Regulations 2016; and
- (h) MAS (Sanctions and Freezing of Assets of Persons – Iran) Regulations 2016.

While specific provisions may differ, broadly speaking, these above regulations generally:

- (i) prohibit financial institutions from entering into transactions with or relating to a sanctioned person;
- (ii) prohibit financial institutions from entering into transactions that have a specific purpose which is being targeted by the sanctions rule; or
- (iii) require financial institutions to freeze assets that may be in their possession or control, where the assets belong to or are controlled by a sanctioned person or where the assets are for the specific purpose that the sanctions rule is targeting, and to notify the authorities accordingly.

The failure to comply with any MAS sanctions regulation is an offence under Section 27A(5) of the MAS Act, for which the financial institution will be liable on conviction to a fine of up to S\$1 million.

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Employees

The Employment Act 1968 of Singapore (2020 Revised Edition) (the “EA”) is regulated by the Ministry of Manpower (the “MOM”) and sets out the basic terms and conditions of employment and the rights and responsibilities of employers as well as employees who are covered under the EA.

In particular, Section 35 of the Employment Act provides that Part 4 of the EA, which sets out requirements for rest days, hours of work and other conditions of service, apply in respect of workmen who receive monthly basic salaries not exceeding S\$4,500 and employees (other than workmen) who receive monthly basic salaries not exceeding S\$2,600.

Section 38(8) of the EA provides that an employee is not allowed to work for more than 12 hours in any one day except in specified circumstances, such as where the work is essential to the life of the community, defence or security. In addition, Section 38(5) of the EA limits the extent of overtime work that an employee can perform to 72 hours a month. An employer who breaches the above provisions shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$5,000, and for a second or subsequent offence to a fine not exceeding S\$10,000 or to imprisonment for a term not exceeding 12 months or to both, pursuant to Section 53 of the EA.

Employment of Foreign Manpower Act

The employment of foreign workers in Singapore is governed by the Employment of Foreign Manpower Act 1990 (2020 Revised Edition) (the “EFMA”) and is regulated by the MOM.

In Singapore, under Section 5(1) of the EFMA, no person shall employ a foreign employee unless he has obtained a valid work pass which allows the foreign worker to work for him. Section 5(6) of the EFMA provides that any person who fails to comply with or contravenes Section 5(1) of the EFMA shall be guilty of an offence and shall (a) be liable on conviction to a fine not less than S\$5,000 and not more than S\$30,000 or to imprisonment for a term not exceeding 12 months or to both; and (b) on a second or subsequent conviction, (i) in the case of an individual, be punished with a fine of not less than S\$10,000 and not more than S\$30,000 and with imprisonment for a term of not less than one month and not more than 12 months; or (ii) in any other case, be punished with a fine not less than S\$20,000 and not more than S\$60,000.

An employer of foreign workers is also subject to, amongst others, the provisions set out in the EA, the EFMA, the Immigration Act 1959 of Singapore (2020 Revised Edition) (the “Immigration Act”) and the regulations issued pursuant to the Immigration Act.

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Central Provident Fund Act

The Central Provident Fund (the “**CPF**”) system is a mandatory social security savings scheme funded by contributions from employers and employees. Pursuant to the Central Provident Fund Act 1953 of Singapore (2020 Revised Edition) (the “**CPFA**”), an employer is obliged to make CPF contributions for all employees who are citizens or permanent residents of Singapore who are employed in Singapore under a contract of service and employed under a permanent, part-time or casual basis (with the exception of a contract of service or other agreement entered into in Singapore as a master, a seaman or an apprentice in any vessel where the owners have been exempted from the provisions of the CPFA).

CPF contributions are required for both ordinary wages and additional wages (subject to the respective CPF contribution ceilings) of employees at the applicable prescribed rates which are dependent on, *inter alia*, the amount of monthly wages and the age of the employee. Ordinary wages are wages due wholly or exclusively for an employee’s employment in a month and are payable before the due date of CPF contributions for that month, whereas additional wages are wages which are not granted wholly and exclusively for the employment in a month, such as annual bonus and leave pay.

Under Section 7 of the CPFA, an employer shall pay both the employer’s and employee’s shares of the monthly CPF contribution. However, pursuant to Section 7(2) of the CPFA, an employer is entitled to recover its employee’s share of the CPF contribution by deducting such a share from the wages of the employee. An employer who fails to pay the CPF contributions in accordance with the CPFA shall be guilty of an offence and may be liable on conviction to a fine not exceeding S\$10,000 or to imprisonment for a term not exceeding 7 years or to both, pursuant to Section 7(3) of the CPFA.

Personal Data Protection Act

The Personal Data Protection Act 2012 (2020 Revised Edition) (the “**PDPA**”) is the main legislation governing the protection and handling (collection, storage, use or onward disclosure) of personal data in Singapore. The PDPA also established the Personal Data Protection Commission (“**PDPC**”) to administer and enforce the PDPA.

Under Section 2 of the PDPA, “personal data” means any data, whether true or not, about an individual who can be identified from that data, or from that data and some other information to which an organization has or is likely to have access.

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Under the PDPA, an organisation will have to comply with the following general obligations when dealing with personal data:

- (a) obtain the consent of the individual before collecting, using or disclosing his personal data for a purpose. Consent is not considered given unless the purpose of collection, use or disclosure is notified to the individual and his consent is obtained in relation to such notified purpose;
- (b) collect, use or disclose personal data about an individual only for purposes that a reasonable person would consider appropriate and, if applicable, have been notified to the individual concerned;
- (c) notify the individual of the purposes for which an individual's personal data is intended to be collected, used or disclosed on or before such collection, use or disclosure;
- (d) give an individual reasonable access to his or her own personal data which the organization has in its possession or control (including informing the individual of the ways in which his personal data has been used or disclosed over the past year);
- (e) correct errors and omissions in the personal data of an individual if the individual so requests;
- (f) make reasonable effort to ensure that personal data collected by it is accurate and complete;
- (g) take reasonable security measures to protect the personal data from unauthorised access, collection, use, disclosure, tampering or disposal, and the loss of any storage medium or device on which the personal data is stored;
- (h) not retain personal data or to remove the means by which personal data can be associated with particular individuals, as soon as it is reasonable to assume that the original purpose of the collection is no longer served by retention and that retention is also no longer needed for legal or business purposes;
- (i) ensure that when personal data is transferred out of Singapore to another country, a standard of protection comparable to that under Singapore law is given to the transferred personal data;
- (j) notify the PDPC of a data breach that results in or is likely to result in significant harm to an affected individual or that is or is likely to be of a significant scale; and
- (k) implement policies and procedures to comply with the PDPA and to make information about such policies and procedures publicly available.

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If an organisation intentionally or negligently fails to comply with its obligations under the PDPA, it will be liable under Sections 48J(1)(a) and 48J(3) of the PDPA to pay a financial penalty of up to S\$1 million. In all instances of non-compliance, the PDPC has the power under Section 48I(2) of the PDPA to direct organisations to stop collecting, using or disclosing personal data in contravention of the PDPA, to destroy personal data collected in contravention of the PDPA, or to comply with any direction of the PDPC to provide access to or to correct personal data.

Failure to comply with requirements of the PDPA may also separately attract civil liability. A person who suffers loss or damage directly as a result of a breach by an organisation of various provisions of the PDPA is able to bring an action against the organisation in a civil court for compensation.

In addition to the obligations above, the PDPA also established a Do-Not-Call Registry (“**DNC Registry**”) under Part 9 of the PDPA, which allows individuals to register their Singapore telephone numbers to opt out of receiving marketing phone calls, mobile text messages and faxes from organisations. Under Section 43 of the PDPA, no person shall send a “specified message” addressed to a Singapore telephone number unless it has been confirmed that the number is not listed on the relevant DNC Registry. A “specified message” is one that, among others, purports to offer to supply or advertise or promote goods and services.

Any person who fails to confirm that a Singapore telephone number is not listed in the DNC Registry, prior to sending a specified message to that number, will be liable to a fine of up to S\$10,000 or imprisonment for a term of up to 3 years or to both.

Laws and Regulations Relating to Companies in Singapore

Our Singapore subsidiary, Moomoo Financial Singapore, is incorporated and governed under the provisions of the Companies Act 1967 of Singapore (2020 Revised Edition) (the “**Companies Act**”). The Companies Act generally governs, amongst others, matters relating to the status, power and capacity of a company, shares and share capital of a company (which includes issue of new shares (including preference shares), treasury shares, share buybacks, redemption, share capital reduction), declaration of dividends, financial assistance, directors and officers and shareholders of a company (including meetings and proceedings of directors and shareholders, dealings between such persons and the company), protection of minority shareholders’ rights, accounts, arrangements, reconstructions and amalgamations, winding up and dissolution. Members of a company are also subject to, and are bound by the provisions in its constitution.

In addition, members of a company are subject to, and bound by, the provisions of the constitution of the company. The constitution of a company contains, *inter alia*, provisions relating to some of the matters in the foregoing paragraph, transfers of shares as well as sets out the rights and privileges attached to the different classes of shares of the company (if applicable).

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Dividend Distributions

Our operations in Singapore are conducted via our Singapore subsidiary, Moomoo Financial Singapore, which has limited revenue contribution during the Track Record Period. Pursuant to Section 403 of the Companies Act, dividends are only payable out of profits. Typically, the directors will recommend a particular rate of dividend and the company in general meeting will declare the dividend subject to the maximum recommended by the directors.

Singapore adopts a one-tier corporate tax system under which the tax collected from corporate profits is a final tax and the after-tax profits of a company resident in Singapore can be distributed to its shareholders as tax-exempt dividends. Such dividends are tax-exempt in the hands of the shareholders, irrespective of whether the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident. Singapore does not currently impose withholding tax on dividends paid to resident or non-resident shareholders.

Singapore Taxation

The following summary of the laws and regulations relating to taxation in Singapore is based on laws, regulations and interpretations presently in effect. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive. These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts of Singapore may later disagree with the explanations or conclusions set out below. This summary is not intended to constitute a complete or exhaustive description of all of the Singapore tax considerations and do not purport to deal with the tax consequences applicable to all categories of investors of the notes. It is not intended to be and does not constitute legal or tax advice.

Corporate Income Tax

The prevailing corporate tax rate in Singapore is 17% with effect from Year of Assessment 2010. In addition, the partial tax exemption scheme for Year of Assessment 2019 and before applies on the first S\$300,000 of normal chargeable income; specifically 75% of up to the first S\$10,000 of a company's normal chargeable income, and 50% of up to the next S\$290,000 is exempt from corporate tax. Starting from Year of Assessment 2020, the partial tax exemption scheme applies on the first S\$200,000 of a company's normal chargeable income; specifically 75% of up to the first S\$10,000 of a company's normal chargeable income, and 50% of up to the next S\$190,000 is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) will be taxed at 17%. For the Years of Assessment 2019 and 2020, companies will be granted a corporate income tax rebate of 20% and 25% respectively of the tax payable for the year of assessment, subject to a cap of S\$10,000 and S\$15,000 respectively per year of assessment.

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Singapore has a tax exemption scheme for new start-up companies to support entrepreneurship and help the growth of local enterprises. Where any of the first three (3) years of assessment falls in or after Year of Assessment 2020, there will be 75% exemption on the first S\$100,000 of normal chargeable income, and a further 50% exemption on the next S\$100,000 of normal chargeable income.

Moomoo Financial Singapore is subject to Singapore corporate income tax at a rate of 17%.

Goods and Services Tax (“GST”)

GST in Singapore is a consumption tax that is levied on import of goods into Singapore, as well as nearly all supplies of goods and services in Singapore at a prevailing rate of 7%.

HISTORY AND CORPORATE STRUCTURE

OVERVIEW

Our Group is a leading one-stop financial technology platform transforming the investing experience with our fully digitalized securities brokerage and wealth management product distribution services in Hong Kong. We commenced our operations in December 2007 through Shenzhen Futu to provide internet technology and software development services. Since then, Mr. Li (our founder, chairman of the Board, executive Director and chief executive officer) has devoted his strong technology background and vision in financial technology industry and placed great emphasis on R&D and innovations in developing the Group's business. Futu International Hong Kong was incorporated in April 2012, obtained a Type 1 License for dealing in securities from the SFC, and successfully launched our proprietary Hong Kong securities trading system and commenced the operation of our online securities brokerage business in Hong Kong in October 2012. We have been led by our founder, Mr. Li, who has over 20 years of experience and expertise in the technology and internet sectors in China. Please see the section headed "Directors and Senior Management" for further details of the work experiences of Mr. Li.

In April 2014, our Company was incorporated under the laws of the Cayman Islands as our holding company. Our Company conducts its businesses through our subsidiaries and Consolidated Affiliated Entities controlled by us through the Contractual Arrangements. A securities brokerage service provider at inception, our Group is now an all-round online financial services platform, integrating trading, wealth management product distribution, market data and information, user community, investor education, and corporate services. As of the Latest Practicable Date, our Group held 51 licenses, registrations and memberships across Hong Kong, Singapore, the U.S., Australia and Europe, serving approximately 19.2 million users.

In March 2019, we listed the ADSs on the Nasdaq under the symbol "FHL" and currently traded under the symbol of "FUTU".

BUSINESS MILESTONES

The following is a summary of our key business development milestones:

<u>Date</u>	<u>Event</u>
December 2007	Our Group commenced its operations to provide internet technology and software development services.
October 2012	We obtained a Type 1 License for dealing in securities from the SFC, launched our proprietary Hong Kong securities trading system and commenced the operation of our online securities brokerage business in Hong Kong.
January 2018	We became registered in the U.S. as a broker-dealer.

HISTORY AND CORPORATE STRUCTURE

Date	Event
July 2018	We started to provide completely online-based account opening services as the first securities broker in Hong Kong.
March 2019	Our Company became listed on Nasdaq.
August 2019	We launched our wealth management product distribution services business on our platform.
March 2021	We launched <i>moomoo</i> in Singapore.
March 2022	We launched <i>moomoo</i> in Australia.

OUR MAJOR SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES

The principal business activities and dates and places of establishment of the major subsidiaries and Consolidated Affiliated Entities of our Group that made a material contribution to our results of operation during the Track Record Period are shown below:

Name	Principal business activities	Date of establishment of business	Place of establishment/ incorporation
Futu International Hong Kong .	Financial services	April 2012	Hong Kong
Futu Securities (Hong Kong) Limited	Investment holding	May 2014	Hong Kong
Futu Network Technology Limited	Research and development and technology services	August 2015	Hong Kong
Futu Network Technology (Shenzhen) Co., Ltd.	Research and development and technology services	October 2015	PRC
Shensi Beijing	No substantial business	September 2014	PRC
Moomoo Financial Inc.	Financial services	December 2015	U.S.
Futu Clearing Inc.	Financial services	August 2018	U.S.
Moomoo Financial Singapore .	Financial services	December 2019	Singapore
Shenzhen Futu	Research and development and technology services	December 2007	PRC
Futu Australia	Financial services	February 2001 ⁽¹⁾	Australia

Note:

1. Futu Australia was acquired by the Company in November 2021.

For further details, please see note 1 to the Accountant's Report in Appendix IA to this document.

HISTORY AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT AND LISTING ON THE NASDAQ

In April 2014, our Company was incorporated under the laws of the Cayman Islands as our holding company. A securities brokerage service provider at inception, our Group is now an all-round online financial services platform, integrating trading, wealth management product distribution, market data and information, user community, investor education, and corporate services.

In 2016 and 2017, we had net losses of HK\$98.5 million and HK\$8.1 million, respectively. As a result, we recorded an accumulated deficit of HK\$148.9 million as of December 31, 2018, which resulted in a net liabilities position of approximately HK\$1,100.3 million as of the same date. We have become profitable since 2018, and witnessed an increase in the trading volume on our platform.

On March 8, 2019, the ADSs representing our Class A Ordinary Shares commenced trading on Nasdaq under the symbol “FHL” (currently traded under the symbol “FUTU”). Our Company issued and sold an aggregate of 8,625,000 ADSs (including 1,125,000 ADSs sold upon the full exercise of the underwriters’ over-allotment option), representing 69,000,000 Class A Ordinary Shares at a public offering price of US\$12.0 per ADS. Concurrently with the completion of our initial public offering, we issued and sold 46,666,666 Class A Ordinary Shares to General Atlantic Singapore FT Pte. Ltd., a non-U.S. and non-affiliated entity at the same price per Share. The net proceeds received by our Company from the initial public offering on Nasdaq and such concurrent private placement (after deducting commissions and offering expenses) were approximately US\$161.7 million (or approximately HK\$1,259.3 million).

On August 22, 2020, we completed our follow-on offering on Nasdaq where we issued and sold a total of 76,000,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$33.0 per ADS, raising net proceeds of approximately US\$301.8 million (or approximately HK\$2,339.7 million), after deducting commissions and offering expenses, to our Company.

On April 24, 2021, we completed another follow-on offering on Nasdaq where we issued and sold a total of 87,400,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$130.0 per ADS, raising net proceeds of approximately US\$1,397.5 million (or approximately HK\$10,856.5 million), after deducting commissions and offering expenses, to our Company.

Our Directors confirm that since the date of our listing on the Nasdaq and up to the Latest Practicable Date, we had no instances of non-compliance with the rules of the Nasdaq in any material respects and to the best knowledge of our Directors having made all reasonable enquiries, there is no matter that should be brought to investors’ attention in relation to our compliance record on the Nasdaq.

HISTORY AND CORPORATE STRUCTURE

REASONS FOR THE LISTING

Our Board is of the view that the Listing will present us with an opportunity to broaden our access to capital markets to grow our customer base, enhance our ecosystem, and continue to invest in our platform and expand our presence in various markets as disclosed in the sections headed “Business — Growth Strategies” in this document. As our Group had a long history commencing our online brokerage business in Hong Kong, it has additional strategic value to us to be listed in Hong Kong.

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated in the Cayman Islands on April 15, 2014 to serve as the holding company of our Group. Upon incorporation, our Company had an authorized share capital of US\$50,000.00 divided into 10,000,000 shares of a par value of US\$0.005 each. The major shareholding changes of our Company were as set out below:

Upon our incorporation, we issued one ordinary share to Nominees Services Ltd., which subsequently transferred such ordinary share to Mr. Li, our founder, chairman of the Board, executive Director 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.

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 Series B preferred shares to Sequoia Capital CV IV Holdco, Ltd. for an aggregate consideration of approximately US\$1.1 million.

On September 22, 2016, we effected a one-to-500 share split whereby (A) all of our 807,500 ordinary shares of par value US\$0.005 each issued and outstanding at the time, were converted into 403,750,000 ordinary shares of par value US\$0.00001 each; (B) all of our 250,000 Series A preferred shares of par value US\$0.005 each issued and outstanding at the time were converted into 125,000,000 Series A preferred shares of par value US\$0.00001 each; (C) all of our 46,875 Series A-1 preferred shares of par value US\$0.005 each issued and outstanding at the time were converted into 23,437,500 Series A-1 preferred shares of par value US\$0.00001 each; and (D) all of our 176,847 Series B preferred shares of par value US\$0.005 each issued and outstanding at the time were converted into 88,423,500 Series B preferred shares of 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, among which the number of our authorized ordinary shares was increased from 9,526,278 to

HISTORY AND CORPORATE STRUCTURE

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.

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.

On March 8, 2019, we issued a total of 115,666,666 Class A Ordinary Shares pursuant to our initial public offering on the Nasdaq and the concurrent private placement. On August 22, 2020, we issued and sold a total of 76,000,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$33.00 per ADS. On April 24, 2021, we issued and sold a total of 87,400,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$130.00 per ADS. Further details of our initial public offering on Nasdaq and the follow-on offerings are set out in the section headed “— Listing on the Nasdaq.”

In December 2020, we raised US\$262.5 million in net proceeds from the private placement of 53,600,000 Class A Ordinary Shares in the form of Pre-Funded Warrants to a leading global investment firm at a price of US\$4.89751 less a nominal exercise price of US\$0.00001 per pre-funded warrant. Such Pre-Funded Warrants were immediately exercisable and had a termination date in June 2022. On June 11, 2021, the Pre-Funded Warrants were exercised in full and 53,599,890 Class A Ordinary Shares have been issued upon full exercise of such Pre-Funded Warrants.

Please also see the paragraphs headed “Appendix IV — Statutory and General Information — A. Further Information about our Group — 2. Changes in share capital of our Company” and “Appendix IV — Statutory and General Information — A. Further Information about our Group — 3. Changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities” for further details.

Our Group adopted a WVR structure, consisting of Class A Ordinary Shares and Class B Ordinary Shares, which became effective immediately prior to the completion of our Company’s initial public offering on the Nasdaq. Immediately prior to the completion of our initial public offering on the Nasdaq, (i) all of the then issued and outstanding preferred shares were converted and re-designated 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, executive

HISTORY AND CORPORATE STRUCTURE

Director, and chief executive officer, Mr. Li, and 140,802,051 ordinary shares (including such ordinary shares converted from the re-designation of preferred shares) held by Qiantang River Investment Limited were 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) were 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 were entitled to one vote per share, while holders of Class B Ordinary Shares were entitled to 20 votes per share upon the completion of the initial public offering on the Nasdaq.

Tencent Group has been our principal shareholder since October 2014. Our Group works with Tencent Group across a number of cooperation areas in a mutually beneficial relationship, and such collaboration is in part driven by our shared values of technological excellence and innovation. For further details of the transactions between our Group and Tencent Group upon Listing, please refer to the section headed “Connected Transactions” in this document. As of the Latest Practicable Date, Tencent Group, through Qiantang River Investment Limited, beneficially owned an aggregate of 140,802,051 Class B Ordinary Shares. On October 25, 2021, the relevant Tencent Entity delivered a share conversion notice to the Company to convert all of the 140,802,051 Class B Ordinary Shares held by it to Class A Ordinary Shares, on a one-to-one basis, upon Listing. Each Class B Ordinary Share is convertible into one Class A Ordinary Share at any time by the holder thereof. Upon the conversion of 140,802,051 Class B Ordinary Shares held by such relevant Tencent Entity into Class A Ordinary Shares, the Company will issue 140,802,051 Class A Ordinary Shares, representing approximately 16.10% the total number of issued Class A Ordinary Shares upon completion of the Introduction and conversion of Class B Ordinary Shares into Class A Ordinary Shares (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date).

On November 21, 2022, pursuant to our existing Articles of Association, Mr. Li, being the WVR Beneficiary, delivered an irrevocable written consent to the Company to consent to the modification of voting rights attached to each Class B Ordinary Share from 20 votes to ten votes pursuant to Rule 8A.10 of the Listing Rules, effective upon the Listing. As advised by our legal advisor as to Cayman Islands laws, such an irrevocable agreement from Mr. Li will constitute his legal, valid and binding obligations enforceable in accordance with its terms, and do not conflict with or result in a breach of any of the terms or provisions of the Company’s existing Articles or any law, public rule or regulation applicable to the Company currently in force in the Cayman Islands. The modification of voting rights attached to each Class B Ordinary Shares from 20 votes to ten votes pursuant to Rule 8A.10 of the Listing Rules will become legally valid and effective as a matter of Cayman Islands corporate law when our existing Articles are amended in line with the Listing Rules requirements (including the modification of the number of votes per Class B Ordinary Share from 20 votes to ten votes) at the Company’s general meeting to be convened on or before June 30, 2023.

Please also see the section headed “Share Capital — Weighted Voting Rights Structure” for further details.

HISTORY AND CORPORATE STRUCTURE

OUR INVESTORS PRIOR TO THE NASDAQ LISTING

The Company has received meaningful third-party investment from investors over the past years. In October 2014, Tencent Group participated in the equity fundraising of the Company, and as of the Latest Practicable Date, based on the information available to the Company, held approximately 22.2% of the total issued share capital of the Company and approximately 35.0% of the voting power of the total issued and outstanding share capital of the Company.

Tencent is a company incorporated in the Cayman Islands and listed on the Stock Exchange (stock code: 700). Tencent Group is a leading provider of Internet value-added services in China, including communications and social, digital content, advertising, fintech and cloud services, and has closely collaborated with the Company over the years across areas such as business services and technology infrastructure.

Tencent Group is expected to be a substantial shareholder of our Company following the Listing. Tencent Group is a sophisticated investor of our Company and in accordance with Guidance Letter HKEX-GL93-18, has undertaken to the Company that it will retain an aggregate 50% of its investment at the time of the Listing for a period of six months following the Listing.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have not conducted any acquisitions, disposals or mergers since our inception that we consider to be material to us.

PRC REGULATORY REQUIREMENTS

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, jointly issued by MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council of the PRC, the SAT, the CSRC, the SAIC (currently known as the SAMR) and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009 with immediate effect, require that a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals through acquisitions of shares of or equity interests in PRC domestic companies, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

HISTORY AND CORPORATE STRUCTURE

Our PRC Legal Advisors are of the opinion that prior CSRC approval for the Listing is not required because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether listings like ours under this document are subject to the M&A Rules; (ii) our wholly-owned PRC subsidiaries were not established through mergers or acquisitions of domestic companies owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company; and (iii) that no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules. However, our PRC Legal Advisors further advise that there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE REGISTRATION IN THE PRC

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment, Financing and Round Trip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, promulgated by SAFE on July 4, 2014 with immediate effect which replaced the Circular of the SAFE on Foreign Exchange Administration of Equity Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 75, (a) a PRC resident must register with the local SAFE counterpart before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE counterpart for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Notice on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), or the SAFE Circular 13, promulgated by SAFE on February 13, 2015 and became effective on June 1, 2015, the power of foreign exchange registration was delegated from the local SAFE counterpart to qualified local banks where the domestic entity was incorporated.

As advised by our PRC Legal Advisors, Mr. Li has completed the registration under the SAFE Circular 37.

HISTORY AND CORPORATE STRUCTURE

Notes:

- (1) Representing 100,000,000 Class A Shares (of which 50,000,000 Class A Ordinary Shares are represented by 6,250,000 ADSs held of record) by Lera Ultimate Limited, 202,812,500 Class B Ordinary Shares held by Lera Ultimate Limited, 36,937,500 Class B Ordinary Shares held by Lera Infinity Limited, 64,000,000 Class A Ordinary Shares held by Lera Infinity Limited and 86,568 Class A Ordinary Shares represented by Mr. Li. Lera Ultimate Limited is a BVI business company ultimately owned by Lera Direction Plus Trust and Lera Infinity Limited is a BVI business company ultimately owned by Lera Target Trust. Lera Direction Plus Trust and Lera Target Trust were established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. Mr. Li has the sole 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. Mr. Li is deemed to be interested in the Shares held by Lera Ultimate Limited and Lera Infinity Limited.
- (2) Representing:
 - (a) 1,442,720 Class A Ordinary Shares held by Mr. Shan Lu;
 - (b) 3,336,000 Class A Ordinary Shares held by Mr. Nineway Jie Zhang; and
 - (c) 760 Class A Ordinary Shares held by Mr. Yijiang Wang.
- (3) Representing (a) 169,643,000 Class A Ordinary Shares directly held by Qiantang River Investment Limited; (b) 71,024,142 Class A Ordinary Shares held by Image Frame Investment (HK) Limited; (c) 1,161,840 Class A Ordinary Shares represented by 145,230 ADSs held of record by TPP Opportunity GP I, Ltd.; (d) 5,412,888 Class A Ordinary Shares represented by 676,611 ADSs held of record by Tencent Mobility Limited; and (e) 176,792 Class A Ordinary Shares represented by 22,099 ADSs held of record by Distribution Pool Limited.
- (4) Representing Shareholders who, to the best knowledge of the Directors, hold less than 5% of our issued share capital and are independent third parties.

OVERVIEW

We are a leading one-stop financial technology platform transforming the investing experience with our fully digitalized securities brokerage and wealth management product distribution services in Hong Kong. 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. Technology permeates every part of our business, allowing us to offer a redefined user experience built upon a secure, stable, agile and scalable online platform. Today, we have become a market leader in Hong Kong in the retail securities brokerage industry and a go-to brand for retail securities trading. According to CIC, we are the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange, with a market share of 10.7% as of December 31, 2021.

A securities brokerage service provider at inception, we are now an all-rounded online financial services platform, seamlessly integrating services and products including trading, wealth management product distribution, market data and information, user community, investor education, and corporate services with a focus on the online securities brokerage market. As an intuitive and easy-to-navigate platform, we are serving approximately 19.2 million users. We provide a comprehensive range of investment products, including equities and derivatives across major global exchanges, margin financing and securities lending, as well as fund and bond investments, leveraging our 51 licenses, registrations and memberships across Hong Kong, Singapore, the U.S., Australia and Europe as of the Latest Practicable Date. Our vibrant user community further engages our users and provides them with direct access to listed companies, fund houses, exchanges, media and research institutions that have accounts in our user community through communication with their representatives. In addition, our platform equips our users with necessary investment knowledge for them to make informed investment decisions.

Our platform has attracted and gathered a vast base of young and high-quality users and clients, evidenced by the average paying client age of 37 and average paying client assets of over HK\$310,000 on our platform as of June 30, 2022, the latter being the highest average retail client asset level among online securities brokers in Hong Kong, according to CIC. The emerging affluent and tech-savvy population we primarily serve allows us to pursue the massive opportunity in the digitalization of the securities brokerage and wealth management industry. We grow our client base mainly through word-of-mouth referrals, corporate services, as well as online and offline marketing and promotional activities. We benefit from the significant organic traffic arising from our high brand awareness, contributing over half of our new paying clients during the year 2021. As of June 30, 2022, we had over 18.6 million users, 3.0 million clients, and around 1.4 million paying clients.

BUSINESS

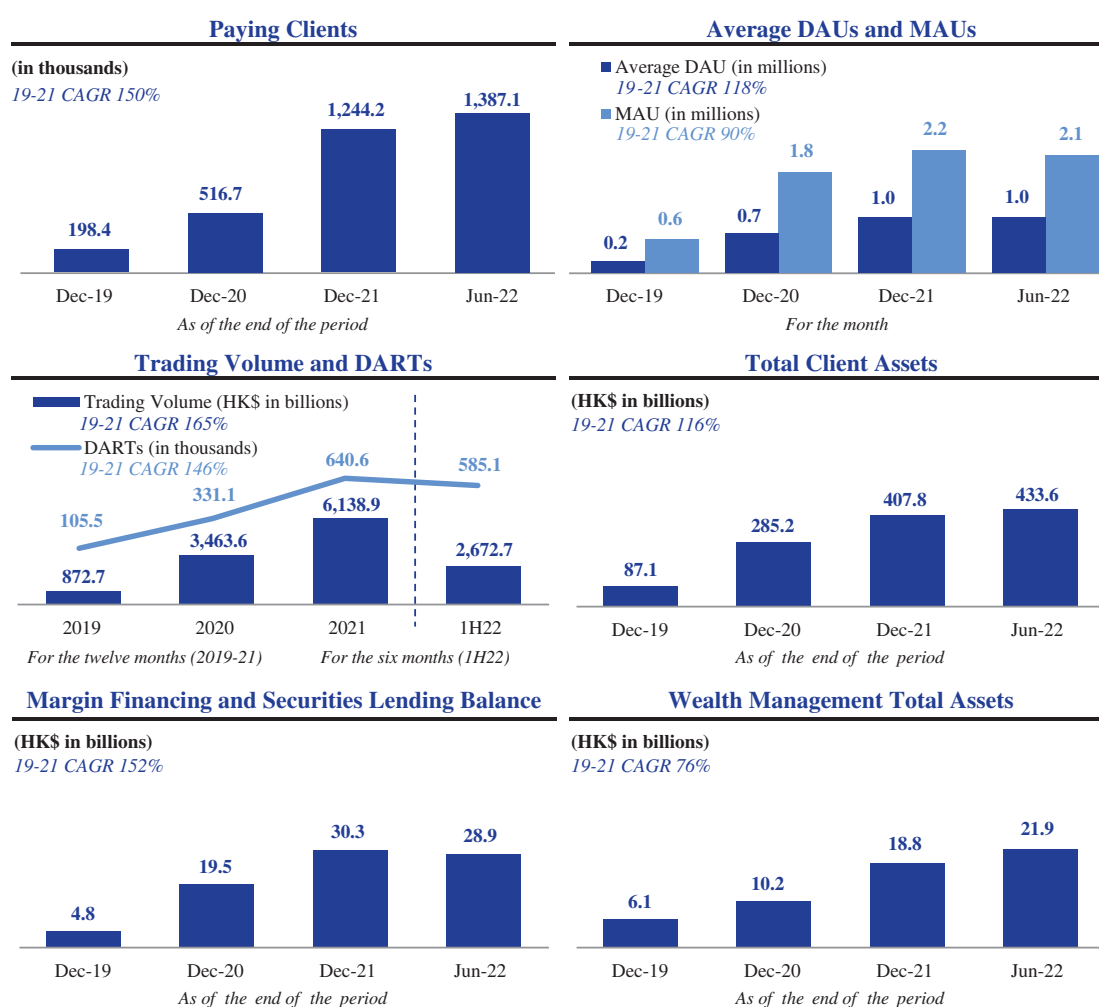
We have developed a proprietary and highly automated technology infrastructure encompassing every aspect of our business operations, from account opening, fund transfer, trading and investment to risk management. Our team is centered around research and development — 63.5% of our employees engaged in research and development as of June 30, 2022. Our founder, chairman of the board and chief executive officer Mr. Leaf Hua Li, who has over 20 years of experience and expertise in the technology and internet sectors in China, is directly in charge of our technology committee, which is responsible for formulating technology development strategies, optimizing the existing technology infrastructure and implementing large-scale technology projects. Our technology infrastructure provides us with crucial advantages:

- *Integrated cross-market platform.* We have developed an easy-to-use and highly integrated cross-market system which allows our clients to view and execute trades in different markets as a unified one from a single platform, with streamlined functionality extending from core trading, real-time risk management to multi-currency, multi-market settlement.
- *Security and stability.* Our platform features an automated multi-level protection mechanism and strict security measures such as data encryption and a two-factor authentication, to protect our clients' personal information and trading data. We invest significantly to ensure platform stability, and were able to achieve over 99.9% service availability rate on our platform in 2020 and 2021, the highest among securities brokers in Hong Kong, according to CIC.
- *Agility and scalability.* Our platform is built on a cloud-based distributed infrastructure and highly modularized architecture, each component of which can be separately upgraded and replaced, significantly reducing the launch cycle, accelerating response time, and enhancing scalability. According to CIC,
 - we were able to offer completely online-based account opening services within ten days from SFC's release of relevant guidance in July 2018, as the first securities broker in Hong Kong;
 - we provided 153 application upgrades and incorporated 5,689 new product features for our users in 2021, the most in the Hong Kong retail securities brokerage market; and
 - we were capable of processing 1,004 Hong Kong listed securities trades per second as of June 30, 2022, highest in the Hong Kong retail securities brokerage market.

BUSINESS

- Big data and AI capabilities.** We have established an intelligent risk control platform built on our proprietary algorithms, which is capable of analyzing different types, sources and stages of risks and providing margin ratio adjustment recommendations and early risk warnings. Leveraging our big data analytic capabilities, we have developed AI-based customer service function which can predict users' questions based on their past interactions with our application. We can also intelligently and accurately identify the true semantics behind the text of our users' questions through our natural language processing capabilities.

As a result of our relentless focus on technology development and product innovation, we have achieved significant growth since inception, and especially during the Track Record Period¹:



Note:

¹ For each relevant period prior to January 1, 2021, figures are only inclusive of those under Futubull or Futu International Hong Kong, as applicable. For each subsequent period since January 1, 2021, figures are also inclusive of those under moomoo or Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia, as applicable.

MARKET OPPORTUNITY**Increasing retail investor participation and online penetration**

Driven by growing disposable income of retail investors, continued enterprise fundraising demands through capital markets, and technological innovations in securities brokerage services, the global securities market (including stocks, bonds, ETFs, derivatives and other securities) has continued to grow in terms of trading volume, from US\$163.3 trillion in 2017 to US\$269.6 trillion in 2021, and is projected to further grow to US\$334.5 trillion in 2026. Two trends have been driving trading volume growth: the increase in retail investor participation and the increase in online penetration.

Global retail investor base continues to grow over the years, driven by improved financial literacy and lower threshold of financial markets access. Specifically, digitalized and user-friendly trading applications that charge low commissions have dramatically lowered the investment barriers for retail investors. In addition, Hong Kong, the U.S., Singapore and Australia securities markets provide a wide range of diversified investment products, thereby attracting a large number of retail investors worldwide. The retail investors' contribution to global securities trading increased from 39.6% in 2017 to 47.4% in 2021, and is projected to further increase to 48.8% in 2026. Securities investing is particularly popular in Hong Kong, with 53.5% of the adult population owning a securities investment account in 2021, according to CIC. Retail investors contribute meaningful trading volumes and have become a formidable force in the global securities market.

Furthermore, the development of mobile internet prompts the migration of trading activities from offline channels to online platforms. This trend has been further accelerated by the COVID-19 pandemic. The global online securities trading penetration rate in terms of trading volume increased from 40.4% in 2017 to 53.2% in 2021, and is projected to reach 62.2% in 2026. The U.S. and Hong Kong ranked as the first and fifth largest online securities market in terms of trading volume in 2021, and both markets were among the fastest-growing online retail securities markets in terms of trading volume from 2017 to 2021, with CAGRs of 32.9% and 18.2%.

These trends have reshaped the competitive landscape of the securities brokerage industry and greatly driven the popularity of online securities brokers, most of which are purpose-built to serve retail investors' online trading needs.

Growing demand for diversified investment products

With increasing wealth accumulation and growing understanding of financial markets, retail investors ranging from the mass affluent to the ultra-high-net-worth demand more diversified investment products, from stocks and ETFs to derivatives. Many retail investors have become aware of investment opportunities outside of their home countries, especially in the U.S. and Hong Kong markets.

Specifically, the offshore investment market for Chinese investors is growing rapidly, driven by the expanding population of global Chinese communities, the increasing investable assets per capita, and growing appetite for equities and fund products. Hong Kong, as a competitive asset and wealth management center and a preferred place of fund domicile, has enjoyed strong growth in its wealth management market, from US\$1.2 trillion in 2017 to US\$1.7 trillion in 2021 at a CAGR of 10.2%. This market is projected to further grow to reach US\$2.8 trillion in 2026 at a CAGR of 9.6%, driven by a number of favorable factors including the Greater Bay Area initiatives, mutual recognition of funds arrangement with the Mainland China and European markets, and continuous development in local financial infrastructure.

This growing demand for diversified investment products leads to a redefined retail investment landscape with increasing preference for “one-stop” platforms that deliver comprehensive financial products and services in a digitalized and easily accessible way.

Social community driving user engagement

User community has become a critical differentiating factor for securities brokers given its appeal to retail investors. Through exchanging market views and investment experience, posting transaction stories and establishing relationships with other people who share the same enthusiasm for investing, retail investors feel accompanied on their investment journey and build a strong sense of belonging and accomplishment. Therefore, social community plays an increasingly important role to uplift user experience and improve client retention.

Retail investors are growing increasingly active on online communities, driven by the growth of younger and tech-savvy investor base globally. In Asia and North America, online brokerage platforms with social communities gained increasing popularity, with leading players realizing approximately 10% year-on-year increase in daily average time spent by active users from 2019 to 2021, according to CIC. Retail investors tap into social networks to share investment experience, acquire market data and information, and seek investment advice. Online securities brokers with interactive social platforms usually enjoy high client conversion and retention rates.

COMPETITIVE STRENGTHS

Market leading brand

After ten years of rapid growth, we are now a market leader in Hong Kong in the retail securities brokerage industry and a go-to brand for retail securities trading. As of December 31, 2021 and according to CIC:

- We were the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange;
- *Futubull* was repeatedly ranked the first in the finance category of Hong Kong iOS and Android App Stores; and
- We were the first and only online securities broker classified by the Hong Kong Stock Exchange as a Category A Exchange Participant (top 14 exchange participants in terms of turnover).

Our great success in the Hong Kong market has laid a solid foundation in terms of technology and industry knowhow for our international expansion. We launched *moomoo*, the international version of *Futubull*, in the U.S., Singapore and Australia, and plan to extend our reach to more international markets. *moomoo* has demonstrated broad popularity and robust momentum since its debut in Singapore on March 8, 2021 — reaching the number one spot under the finance category and free download category of Singapore’s iOS and Android App Store within two months, respectively, and attracting over 220,000 users and 100,000 paying clients within three months.

Creating a market-leading and trustworthy brand has brought us high growth. Our total client asset balance increased from HK\$87.1 billion as of December 31, 2019 to HK\$433.6 billion as of June 30, 2022, up by about five-fold in two and a half years. Our revenue, gross profit and net income grew from 2019 to 2021 at a CAGR of 158.9%, 175.3% and 311.9%, respectively.

Premier user experience

We make investing easier by crafting a premier user experience through technology capabilities, redefining industry best practices.

The relentless pursuit for offering best-in-class user experiences has been the core of our culture, which stemmed from our founder Mr. Leaf Hua Li, who was Tencent’s 18th founding employee, an early and significant research and development participant of Tencent QQ, the founder of Tencent Video leading product design and development, and former head of Tencent’s multi-media business and its innovation center. This culture is also permeated throughout the company, manifested by how our employees approach product development.

BUSINESS

Our premier user experience is reflected in several important areas:

- *Flexible Platform.* We ensure an omni-terminal access to our platform from mobile phones, tablets and computers, either through our purpose-built applications or internet browsers. Across all channels, we deliver intuitive, easy-to-navigate, efficient, and elegant user interfaces, creating a well-received platform without technical terms or barriers for users to make informed investment decisions.
- *Seamless Operational Process.* Our operational processes are fully digitalized and seamless. We provide a completely online account opening process and multiple channels of fund transfers. By virtue of our technology edge, we are able to complete new account opening online in three minutes and bank-to-brokerage fund transfers in as fast as a few seconds, both at the highest level among Hong Kong online securities brokers, according to CIC.
- *Rich and Tailored Market Insights.* We offer real-time market data, including unique and valuable analytics, such as institutional trading volumes, trading order flows, and free Hong Kong Level II stock quotes, to all Mainland China-based clients, the first among online securities brokers in Hong Kong, according to CIC. Leveraging our proprietary algorithms and deep-learning models, we automatically aggregate information, produce stock analysis and provide personalized content. We also provide advanced and intuitive tools to allow our users to customize the manner in which they monitor the market.
- *Continuous Product Upgrade and Innovation.* We strive to prioritize clients' potential demands in the ever-changing market environment by constantly expanding our product offerings. In 2021, we provided 153 application upgrades and incorporated 5,689 new product features for our users, the most in the Hong Kong retail securities brokerage market, according to CIC. As a market pioneer, we are the first online securities broker in Hong Kong to launch many new product features according to CIC, including proprietary grey market trading services for Hong Kong IPOs and the option for clients to automatically subscribe for and redeem money market funds based on their cash positions.
- *Direct Communication Channels.* We have a proprietary and tailored customer service system, directly connecting our users with our customer service specialists and technology experts through online chat or hotline. Our users can also directly interact with our official accounts, product managers and even our founder through *NiuNiu/Moo Community* where they can provide product feedback and suggestions. We highly treasure active client engagement and strive to respond promptly.

BUSINESS

Our relentless efforts on user experience enable us to cultivate customer loyalty and minimize the attrition rate:

- During the six months ended June 30, 2022, our DAUs on average opened our application 16.9 times and spent an aggregate of 26.6 minutes on our platform per trading day;
- In June 2022, the ratio of our average DAU over MAU was as high as 47.7%, indicating strong user activeness and stickiness on our platform;
- Among new paying clients joining in the six months ended June 30, 2022, within six months after using our platform, 50.8% of them had two or more types of products in their portfolio (product types including stocks, options, futures, warrants, funds, bonds), and cumulative funds transferred to our platform on average increased by 186.2%;
- According to a survey conducted by CIC in August 2021 covering 1,000 users, 92% of respondents are willing to recommend us to other people.

High-quality customer base

Offering best-in-class products and user experience, our platform has become the go-to choice for retail investors and attracted a vast base of high-quality customers:

- *Young.* Whilst the number of our clients has grown over four-fold from 717,842 as of December 31, 2019 to 3,021,790 as of June 30, 2022, the average paying client age remains around 37 years old, which indicates our platform's ability to continuously attract many young people to become our clients over time;
- *Potential to Generate Wealth.* Many of our clients work in new economy industries — over 25% of our clients worked in internet, information technology and financial services sectors as of June 30, 2022. Our paying clients substantially increased during the Track Record Period, from less than 200,000 as of December 31, 2019 to approximately 1,400,000 as of June 30, 2022. Our clients had average paying client assets of over HK\$310,000 on our platform, as of June 30, 2022;
- *Loyal.* During the Track Record Period, on average we retained around 98% of our paying client base on a quarterly basis, one of the highest retention rates among online securities brokers in Hong Kong, according to CIC. Such high retention rates drive revenue visibility and generate additional sources of income for us as clients mature and adopt more financial services on our platform.

BUSINESS

From June 30, 2019 to June 30, 2022, our users, clients and paying clients grew at a CAGR of 44.9%, 70.1% and 103.5%, respectively, demonstrating our ability to attract users and convert them into clients. We expect our clients to continue their wealth accumulation, grow their asset balance with us and seek more comprehensive investing services on our platform, leading to significant customer lifetime value.

Flywheel effects of corporate and retail services

Our high-quality services offered to enterprises and individuals have resulted in flywheel effects and enabled us to achieve efficient and effective customer acquisition.

Serving China's new economy companies has been one of our key growth strategies. Through launching a series of corporate services including IPO distribution, investor relations and marketing, ESOP solution and trust services, we have become a long-term partner of new economy companies, which in turn enhanced our brand recognition among retail investors:

- *IPO distribution, Investor Relations and Marketing.* With a large retail investor base, we have become a preferred IPO distribution partner for China's new economy companies and a popular platform for them to conduct investor relations and marketing activities. As of June 30, 2022, we had participated in ten Hong Kong primary IPOs with WVR structure (usually an indicator of new economy company) and generated over HK\$10 billion of subscription amount each for 29 Hong Kong IPOs. We also participated in 86.7% of the U.S. IPOs of China-based companies that raised over USD500 million from August 2020 to June 2021. More than 1,000 companies had created their corporate accounts on our platform as of June 30, 2022, to publish their earnings releases or carry out marketing campaigns regularly. Most new economy companies come naturally with "traffic", and therefore it is also a publicity event for us every time we serve a new economy company for its IPO.
- *ESOP Solutions.* Our ESOP solution services have emerged as our signature corporate service and proved pivotal for efficient client acquisition. Once an ESOP account of a corporate is established, we can connect with beneficiary employees, and are better positioned to serve their ongoing stock trading needs once their stock awards are vested. Many of these employees are high-income individuals with significant wealth accumulation potential. Our ESOP solution services have a dominant market share among Chinese new economy companies. As of June 30, 2022, we had 519 ESOP solutions clients, covering the largest number of Chinese new economy companies listed overseas since 2018, according to CIC. Through providing ESOP solution services, we can secure IPO distribution mandates and establish relationships with corporate executives to potentially provide wealth management product distribution and trust services.

The high-quality retail customer base we accumulated has also contributed to our recognition among corporate clients. The majority of our users actively follow and understand the value of new economy companies, and have both the willingness and financial resources to purchase their stocks and products. They are exactly the target retail investors and customers that new economy companies hope to attract.

Vibrant user community

We make investing not alone through fostering the *NiuNiu/Moo Community*, a vibrant online community with social media tools for our users to interact, share, learn and grow. Our user community transforms the traditionally monotonous investment experience and has differentiated us among our peers.

Our *NiuNiu/Moo Community* has developed into an investment ecosystem with 18.6 million participants, including a large number of retail investors as well as various types of enterprises. As of June 30, 2022, over 1,500 enterprises had accounts on our *NiuNiu/Moo Community*, including over 1,000 public and private companies, 392 media institutions, as well as 66 research institutions, fund houses, and exchanges. Our *NiuNiu Community* has become the largest online social investing community and the second largest online forum in Hong Kong in terms of average MAUs in Hong Kong in 2021, according to CIC.

For retail investors, the investing journey can be turbulent and lonely as they study business fundamentals, analyze macroeconomic trends, make investment decisions, monitor market performances, and review investing decisions, over and over again. Our *NiuNiu/Moo Community* enables a much more enriching experience where our users can stay connected with, share the moments of ups and downs with, and learn from, people who bear the same enthusiasm for investment. Through years of cultivation and dedicated operation, we have built up a unique community culture — curious, caring, supportive and inclusive — which will bring long-term value to our future growth.

We have further demystified investing by directly connecting our users with many companies, fund houses, exchanges, media and research institutions so that they can get first-hand information from different channels to support investment decision-making. Users can watch live broadcasts of corporate events and directly interact with executives from over 1,000 companies. According to CIC, our *NiuNiu Community* on *Futubull* was one of the first investor communities that Tesla joined. Multiple global leading fund houses have livestreamed on our platform to promote their mutual funds products and investment knowledge. At the same time, users seeking to improve their investment capabilities can watch our pre-recorded investment knowledge videos on our platforms. We also encourage more high-quality UGCs through our systematic creator incentive program.

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The *NiuNiu/Moo Community* fulfills our users' information and social needs. *Futubull* and *moomoo* had around one million average DAUs in June 2022, and maintained a similar level of daily activity on weekends. During the six months ended June 30, 2022, *Futubull* and *moomoo* on average generated an aggregate of approximately 138,000 UGCs on each trading day. Among our MAUs in June 2022, those who visited *NiuNiu/Moo Community* for ten or more days on average spent as much as 30.4 minutes per day on our platform, as compared to 5.4 minutes by those who visited for less than ten days.

GROWTH STRATEGIES

As we envision ourselves to become an influential global financial services platform, we will pursue the following strategies:

Grow our user and client base

We will continue to grow our user and client base, especially through word-of-mouth referral and precision marketing. We plan to further leverage our market-leading brand and powerful word-of-mouth referral network to drive organic growth in our user and client base. We will also leverage our data analytics capabilities to launch more targeted marketing to increase our customer service quality.

Enhance our ecosystem

We will further enhance our synergistic ecosystem, through constantly broadening our product portfolio, adding new functions, and enriching the content in our *NiuNiu/Moo Community*, to attract more users and expand wallet share. At the same time, we will continue to invest in our enterprise business and grow our new economy corporate client base to diversify revenue and efficiently acquire retail investors.

Invest in our platform

We will continue to invest in technology and talents to maintain our competitive advantages and to facilitate the execution of our strategies. Our investment in technology would focus on areas including risk control, system availability, product innovation, big data and AI technologies. We will also continue to build our strong and experienced team of product managers, developers, marketing and supporting staff.

Expand in various markets

We aim to expand our presence and improve our product offerings in various new markets to capture global opportunities and nurture a global client base. We plan to selectively pursue strategic partnerships, alliances, investments and acquisitions to facilitate growth in new markets. We believe our products and services that seek for depth, perfection and connectivity can provide highly differentiated value propositions to investors in other markets.

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OUR ACHIEVEMENTS

Since our inception, we have continued to expand our scope of services, achieving many “firsts” along the way within the industry. Set out below are our key business milestones:

<u>Date</u>	<u>Key Business Milestones</u>
October 2012	We obtained a Type 1 License for dealing in securities from the SFC, launched our proprietary Hong Kong securities trading system and commenced the operation of our online securities brokerage business in Hong Kong.
January 2018	We became registered in the U.S. as a broker-dealer.
July 2018	We started to provide completely online-based account opening services as the first securities broker in Hong Kong.
March 2019	We became listed on Nasdaq.
May 2019	We obtained a clearing license in the U.S.
August 2019	We launched our wealth management product distribution services business on our platform.
February 2021	We reached one million DAUs on our platform.
March 2021	We launched <i>moomoo</i> in Singapore and achieved 100,000 paying clients within three months.
March 2022	We launched our business in Australia after acquisition of Australian subsidiary that holds Australian Financial Services License (AFSL).
June 2022	We became the first online broker to officially receive full SGX memberships.

INNOVATIVE COMPANY

We are a pioneer in the online brokerage industry, with innovation as our core focus. Through our one-stop financial technology platform, we have achieved many “firsts” within the industry through our innovative business model. In July 2018, we were the first securities broker in Hong Kong to offer completely online-based account opening services, according to CIC, and since then, became the first online securities broker in Hong Kong to provide ESOP solution services to corporate clients, integrated money market instruments with trading, grey market trading services for Hong Kong IPOs and free Hong Kong Level II stock quotes for all Mainland China-based clients. We have integrated our various business streams across market data and information, user community and wealth management product distribution on one platform, providing customers with seamless all-round financial service experiences. We have

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large user base in our user community, generating huge quantity of UGCs that facilitate user communication and interaction. We have established an intelligent risk control platform built on our proprietary algorithms, which is capable of analyzing different types, sources and stages of risks and providing margin ratio adjustment recommendations and early risk warnings. Leveraging our big data analytic capabilities, we have developed AI-based customer service function which can predict users' questions based on their past interactions with our application. We can also intelligently and accurately identify the true semantics behind the text of our users' questions through our natural language processing capabilities. Supported by our innovation, we have achieved substantial business growth in the rapidly growing online securities market.

Research and development in technology has contributed significantly to our business growth and success since our inception, allowing us to continually increase our portfolio of intellectual properties and improve products and services for our clients and users. In 2019, 2020, 2021 and the six months ended June 30, 2022, our research and development expenses amounted to approximately HK\$262.3 million, HK\$513.3 million, HK\$805.3 million and HK\$574.2 million (US\$73.2 million), respectively, accounting for 44.3%, 44.7%, 29.5% and 39.1% of our operating expenses for each corresponding period, respectively. Our ability to develop innovative solutions and enhance our existing service offerings is demonstrated by our heavily technology and research and development oriented employee structure. As of June 30, 2022, 1,641, or 63.5% of our total employees were engaged in our research and development function.

OUR PLATFORM

We operate a technology-driven online securities brokerage and wealth management product distribution platform, which enables us to digitally deliver a wide range of products and services to our users and clients in an integrated way. We enable an omni-terminal access to our platform from mobile phones, tablets and computers, either through our purpose-built applications or internet browsers.

Our primary platform, *Futubull*, is mainly available to users based in Hong Kong and Mainland China. *Futubull* allows investors to trade securities across major exchanges in Hong Kong and the U.S. and qualified securities under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange quickly and securely, with access to margin financing and securities lending. We also offer wealth management product distribution services through our *Money Plus* brand on our *Futubull* and *moomoo* platform, where our clients can get access to a suite of fund and bond products. In addition to our core investment offerings, we also provide our users with a variety of value-added services designed to facilitate the investing process, including real-time stock quotes, market data and news as well as an interactive user community where our users can exchange investment views and experience. We also offer corporate services through our *Futu I&E* brand, such as IPO distribution, investor relations and marketing, as well as ESOP solution services. We also provide trust services to corporate clients.

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As part of our international expansion, we developed and launched *moomoo*, the international version of *Futubull*, first in the U.S. in 2018 and more recently in Singapore in March 2021 and Australia in 2022. Our *moomoo* platform provides tailored services to clients in the U.S., Singapore and Australia through our local licensed entities Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia, respectively, after they open trading accounts with us in compliance with our account opening application, verification procedures and regulatory requirements in the relevant jurisdiction. For clients that have eligible identity documents for multiple jurisdictions, they may open multiple accounts on *Futubull* and/or *moomoo* through our respective local licensed entities as long as they open such trading accounts with us in compliance with the above-mentioned requirements in the relevant jurisdiction. Such accounts would be maintained separately by the respective local licensed entities with no asset or user data transferable in between. We provide differentiated offerings through our respective local licensed entities considering the varying customer demand and regulatory requirements. While all of our local licensed entities provide securities trading services on the Hong Kong Stock Exchange and the major exchanges in the U.S., additionally, our *moomoo* platform in Singapore and Australia, through Moomoo Financial Singapore and Futu Australia, also allows investors to trade securities listed on the Singapore Exchange or the Australian Securities Exchange, respectively. We have seen robust growth momentum and received encouraging user feedback since our debut in Singapore. *moomoo* reached the number one spot under the finance category and free download category of Singapore's iOS and Android App store within two months, and attracted over 220,000 users and 100,000 paying clients within three months.

Our platform is underpinned by a premier user experience. We are the first securities broker to provide completely online-based account opening services in Hong Kong, according to CIC. We have streamlined the account opening, fund transfer and trade execution processes on our platform to provide convenient and seamless investment experiences. Account opening on our platform requires filling out an online application which takes less than three minutes, followed by verification procedures facilitated by automated risk management systems. We also provide easy-to-use fund transfer services facilitating swift deposit and withdrawal of funds, allowing for bank-to-brokerage fund transfers in as fast as a few seconds. In addition, we provide our users and clients with access to all of our products and services from a single profile on our platform.

We serve both users and clients. Our “users” access *Futubull* and *moomoo* through our mobile or desktop applications or our website with registered user accounts. Our “clients” are our users who open one or more trading accounts with us; and our “paying clients” are our clients with assets in their trading accounts with us. As of June 30, 2022, we had over 18.6 million users, 3.0 million clients and around 1.4 million paying clients. In June 2022, our MAUs and average DAUs were approximately 2.1 million and 1.0 million, respectively.

OUR SERVICES

We provide our users and clients a comprehensive set of services throughout their investing experience. Our core services include trade execution, margin financing and securities lending, as well as wealth management product distribution. We provide a variety of value-added services in addition to our core offerings, many of which are free of charge, to address our clients' broader investment demands as well as increase general client engagement. All our services can be accessed through our platforms with a single profile across various terminals. The following diagram illustrates the comprehensive services we provide to our users and clients:



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The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,					
	2019		2020		2021		2021		2022			
	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	Amount HK\$	revenue US\$	% of total revenue	
	<i>(in thousands except for percentages)</i>											
	<i>(unaudited)</i>											
Brokerage commission and handling charge income	511,365	48.2	1,990,138	60.1	3,913,027	55.0	2,122,679	56.1	2,001,246	255,027	59.1	
Interest income	464,903	43.8	965,627	29.2	2,518,198	35.4	1,268,940	33.6	1,195,661	152,368	35.3	
Other income	85,287	8.0	355,057	10.7	684,095	9.6	389,842	10.3	190,821	24,317	5.6	
Total	1,061,555	100.0	3,310,822	100.0	7,115,320	100.0	3,781,461	100.0	3,387,728	431,712	100.0	

The following table sets forth the components of our brokerage commission and handling charge income by type of products traded during the Track Record Period:

	For the Year ended December 31,			For the Six Months ended June 30,		
	2019	2020	2021	2021	2022	
	HK\$	HK\$	HK\$	HK\$	HK\$	US\$
	<i>(in thousands)</i>					
	<i>(unaudited)</i>					
Securities and options brokerage	480,677	1,878,038	3,688,149	2,024,838	1,810,496	230,719
Futures brokerage	37	32,530	130,775	53,857	154,060	19,632
IPO brokerage	27,981	70,846	75,571	38,384	10,316	1,315
Others ⁽¹⁾	2,670	8,724	18,532	5,600	26,374	3,361
Total	511,365	1,990,138	3,913,027	2,122,679	2,001,246	255,027

Note:

- (1) Others include (i) handling fees, such as dividend collection fees, equity interest collection fees, corporate action handling fees, (ii) bond brokerage commission and (iii) service fees, such as ESOP handling charges.

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The following table sets forth the components of our interest income by product type during the Track Record Period:

	For the Year ended December 31,			For the Six months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>					
	<i>(unaudited)</i>					
Interest income						
Margin financing	221,648	497,975	1,720,473	786,095	766,722	97,706
Securities lending	37,202	73,792	397,505	233,929	182,124	23,209
Bank deposit	187,223	208,556	197,390	88,916	196,807	25,080
Bridge loan	6,172	1,078	1,872	–	48,235	6,147
IPO financing	12,658	184,226	200,567	160,000	750	96
Other financing ⁽¹⁾	–	–	391	–	1,023	130
Total	<u>464,903</u>	<u>965,627</u>	<u>2,518,198</u>	<u>1,268,940</u>	<u>1,195,661</u>	<u>152,368</u>

Note:

(1) Other financing mainly includes the securities purchased under agreements to resell.

RETAIL SERVICES

Trade Execution

We provide easy-to-use trade execution services, allowing our clients to trade securities, such as stocks, ETFs, warrants, options and futures, across different markets. We serve clients from different countries and regions through our licensed subsidiaries in Hong Kong, Singapore, the U.S. and Australia:

- *Hong Kong:* We operate our securities brokerage business in Hong Kong through Futu International Hong Kong, our wholly-owned subsidiary incorporated in Hong Kong. We have been licensed by the SFC to carry out securities dealing and have become a participant of the Hong Kong Stock Exchange as a licensed broker since 2012. We also cooperate with CCASS to provide clearing and execution services for our brokerage business involving securities listed on the Hong Kong Stock Exchange and stocks qualified under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

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- *Singapore:* We carry out our operations in Singapore through our Singapore-incorporated subsidiary Moomoo Financial Singapore, a licensed corporation registered with the Monetary Authority of Singapore with the Capital Markets Services Licence.
- *The U.S.:* We carry out our operations in the U.S. through our US-incorporated subsidiaries, including Moomoo Financial Inc., a licensed broker-dealer in the U.S., and Futu Clearing Inc., a licensed provider of clearing and settlement services for securities transactions in the U.S. financial markets in cooperation with the Depository Trust Clearing Corporation and its subsidiaries. See “— Licenses and Regulatory Approvals”.
- *Australia:* We carry out our operations in Australia through our Australia-incorporated subsidiary, Futu Australia, which holds an Australian Financial Services License granted and regulated by the Australian Securities and Investments Commission.

We provide comprehensive order types to meet our clients’ different trading strategies, including limit/market order, auction limit/market order, odd-lot order, stop loss limit/market order, touch limit/market order, trailing stop loss limit/market order and TWAP/VWAP order. In addition, we provide API services which allow clients to trade through our platform using their own program.

The trade execution process is entirely online and automated. We aggregate orders simultaneously and form trading instructions which are subsequently delivered to respective exchanges. Funds or securities are then transferred to or from our accounts upon settlement, which we then further remit back to the relevant trading accounts, after deducting the fees for our securities brokerage services, and are normally settled within two business days.

Prior to using our platform for the first time, our users and clients are required to accept our standard general terms and conditions which set out the key terms to our operations, and include other provisions such as anti-money laundering and data privacy.

As a licensed securities broker in Hong Kong with integration into the trading systems of the Hong Kong Stock Exchange and CCASS, we can independently manage all steps involved in processing securities transactions, including order confirmation, receipt, settlement, delivery, dividend collection and record-keeping, for securities listed on the Hong Kong Stock Exchange, including stocks, ETFs, warrants, options, futures, callable bull/bear contracts and stocks under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. We also provide new share subscription and proprietary grey market trading services (also known as dark pool trading services) for IPOs on the Hong Kong Stock Exchange. Additionally, we had 502 throttling controllers connected to the trading system of the Hong Kong Stock Exchange as of June 30, 2022, allowing us to execute a large number of trading

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transactions simultaneously and respond quickly to sudden surges in order volumes. As of June 30, 2022, we were capable of processing 1,004 Hong Kong listed securities trades per second, highest among securities brokers in the Hong Kong retail securities brokerage market, according to CIC.

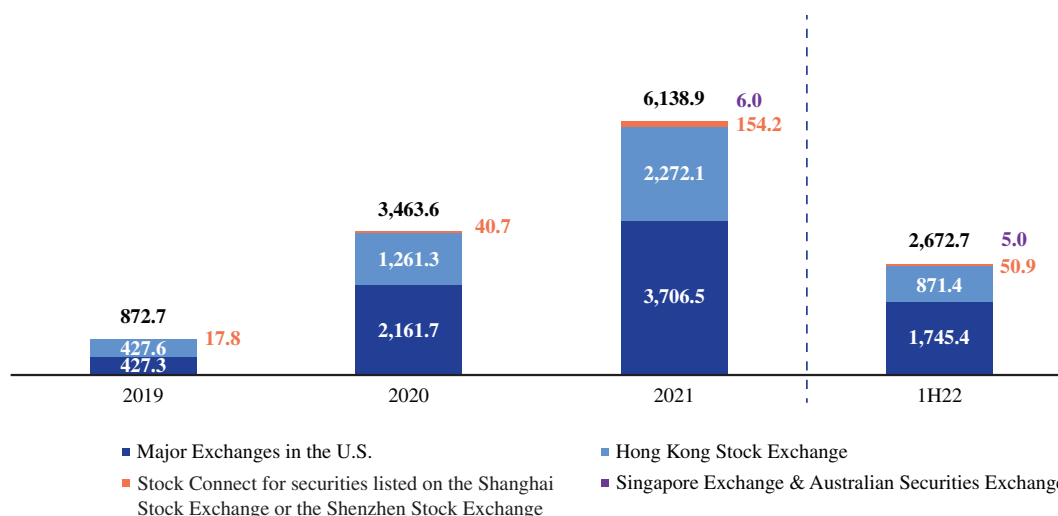
For securities including stocks, options and futures traded on the major exchanges in the U.S., the Singapore Exchange and the Australian Securities Exchange, we aggregate trade instructions from clients and, without disclosing underlying client names or fund details, collaborate with qualified local third-party clearing brokers for execution and settlement. In most cases, the agreements we enter into with such third-party clearing brokers are for an indefinite term, charging a tiered commission rate which they deduct directly from our account with them. In the case of securities traded on the major U.S. stock exchanges, we also execute and settle transactions through our self-clearing business except clearing for over-the-counter market and certain other products for which we are in the process of developing our support capabilities. From our client's perspective, the trading process is seamless as we handle all client communications and touchpoints, including delivery and receipt of funds. We intend to further enhance our self-clearing coverage and continue to develop our self-clearing business. We also provide new share subscription services in relation to selected IPOs on the New York Stock Exchange, the Nasdaq Stock Market and the Singapore Exchange.

As a result of the operational efficiencies afforded by our technology, we sustainably charge a competitive brokerage commission rate for online trading as compared to most of our market peers. In general, our revenues from securities brokerage services include brokerage commissions and handling charges from our clients, which are recognized on a trade-date basis when the relevant transactions are executed. During the Track Record Period, we charged commission rates of 0.03-0.05% of the total transaction amount for securities traded on the Hong Kong Stock Exchange, 0.01-0.03% of the total transaction amount for qualified securities under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, and US\$0.0049 to US\$0.01 per share or US\$5 per transaction for securities on the major exchanges in the U.S. As of the Latest Practicable Date, we charged a commission rate of 0.03% of the transaction amount and a fixed or tiered platform service fee between HK\$1 to HK\$30 per order for securities traded on the Hong Kong Stock Exchange, a commission rate of 0.03% of the transaction amount and a fixed platform service fee of RMB15 per order for qualified securities on the Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, a commission rate of 0.03% of the transaction amount and a platform service fee of 0.03% of the transaction amount for securities traded on the Singapore Exchange, a commission rate of 0.03% of the transaction amount and a platform service fee of 0.05% of the transaction amount for securities traded on the Australian Securities Exchange, and a commission fee of US\$0.0049 per share per transaction and a platform service fee of US\$0.99 per order or US\$0.003 to US\$0.01 per share per transaction for securities on the major exchanges in the U.S.

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The total trading volume of transactions executed through our platform and the breakdown with respect to securities listed on different stock exchanges, over the Track Record Period, is shown as below:

Trading Volume by Stock Exchanges (in HK\$bn)



The brokerage commission and handling charge income we earned for securities traded on the Hong Kong Stock Exchange and the major exchanges in the U.S. accounted for 24.7% and 23.4% of our total revenues in 2019, 21.4% and 38.7% of our total revenues in 2020, and 17.3% and 37.6% of our total revenues in 2021 and 16.5% and 42.4% of our total revenues for the six months ended June 30, 2022, respectively.

Margin Financing and Securities Lending Services

We provide real-time and cross-market securities-backed financing to clients. Our margin financing and securities lending services have grown rapidly since introduction, reflecting our ability to cross-sell and our clients' receptivity to sophisticated investing services. As of June 30, 2022, 41.6% of our clients who had traded through our platform had used our margin financing and securities lending services.

Margin Financing

We started to offer margin financing to clients who trade securities listed on the Hong Kong Stock Exchange, the major exchanges in the U.S., qualified securities under the Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and securities listed on the Singapore Exchange in July 2016, February 2017, July 2018 and January 2022, respectively.

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All financing extended to our clients is secured by acceptable securities pledged to 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 different markets, will be aggregated when calculating the value of the client's collateral based on real time market foreign exchange rates. 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 value of the securities across all of his or her trading accounts. Our eligible clients need to open margin financing accounts with us to enjoy such services. The eligible clients need to confirm the use of margin financing services when the funds in their accounts are not sufficient to purchase the desired securities and there is still sufficient balance in their credit lines. As of the Latest Practicable Date, we charged margin rates of 6.8% per annum for securities traded on the Hong Kong Stock Exchange, 4.8% per annum for securities traded on the Singapore Exchange, 4.8%-6.8% per annum for securities on the major exchanges in the U.S., and 6.8%-8.8% per annum for the qualified securities on the Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

A list of securities acceptable as collateral to us and their respective margin ratios are regularly updated and shared with our clients. The margin ratio for each of the acceptable securities is individually determined by our risk management team based on a number of factors including market capitalization, historical price volatility and turnover, financial fundamentals, prevailing market conditions, as well as financing terms offered by major financial institutions. The margin ratio is monitored in real time, and reviewed and adjusted on a regular basis, more frequently in the case of a significant and rapid price fluctuation. See “— Risk Management and Internal Control — Risk Management — Margin Financing and Securities Lending Risk Management.”

When we launched our margin financing business, we financed mostly from our own working capital and shareholder loans. We have since diversified the funding source of our margin financing through collaboration with our long-term independent third-party financial institution partners, which are all licensed banks or securities firms in the jurisdictions where we operate, where we can combine collateral from our clients into portfolios and pledge the portfolios to financial institutions for commercial loans with sound credit extension terms. As of June 30, 2022, 66.8% of margin financing was financed through our financial institution partners. For margin financing services related to securities listed on the Hong Kong Stock Exchange and major exchanges in the U.S., we have entered into loan facility agreements with commercial banks in which we agree on the maximum facility limit, maturity and annualized interest rates. In addition, for securities listed on the major exchanges in the U.S., an independent third-party Nasdaq-listed multinational brokerage company headquartered in the United States that 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 after the relevant commissions and fees that we incur are deducted by such third-party

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brokerage company. The business agreement we have entered into with such partner has an indefinite term, and requires us to continuously maintain sufficient margin requirements to reduce the risks involved with margin financing. Another source of funding comes from short-term securities sold under global master repurchase agreements to repurchase transactions with financial institution partners on industry-standard terms.

During the Track Record Period, we recorded substantial growth in our margin financing business. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the number of our margin financing clients was 20,423, 70,374, 137,421 and 135,642, respectively, with balance of margin financing amounted to HK\$4.14 billion, HK\$18.4 billion, HK\$29.1 billion and HK\$26.7 billion, respectively. We kept our default rate, calculated as our allowance for credit losses divided by balance of margin loans, at nil, 0.05%, 0.04% and 0.08% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

Securities Lending

For clients who trade securities listed on the Hong Kong Stock Exchange and major exchanges in the U.S., we offer securities lending service which allows our clients to pursue short-selling strategies. We launched our securities lending services for U.S. listed securities in February 2017, and for Hong Kong listed securities in December 2020. To borrow securities, our clients must pledge cash or acceptable securities from their trading accounts with us. For securities lending that we collaborate with third-party partners, the interest rate that we charge our clients is based on an annualized interest rate charged by our securities lending partners, plus a certain premium that we earn as interest income which is calculated based on the market value of securities borrowed by our clients, the duration of the borrowing and the short-selling interest rate.

After clients make a margin financing or securities lending order, the relevant funds or securities will be transferred to the client. Any margin financing or securities lending costs, including interests and securities lending fees for the month, are automatically deducted from our client's account at the end of each month.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we maintained a loan-to-value ratio with our margin financing clients of 21.2%, 20.6%, 24.3% and 22.3%, respectively, against the collateral value of the securities pledged to us. As of September 30, 2022, our loan-to-value ratio was 26.3%. We continuously monitor the loan-to-value ratio, and our Directors believe that we maintained a stable loan-to-value ratio throughout the Track Record Period. We also have a set of detailed measures aimed at mitigating our exposure to risks related our margin financing business. Please refer to “— Risk Management and Internal Control — Risk Management — Margin Financing and Securities Lending Risk Management” for details.

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As of December 31, 2019, 2020 and 2021 and June 30, 2022, our margin financing and securities lending balance was HK\$4.8 billion, HK\$19.5 billion, HK\$30.3 billion and HK\$28.9 billion (US\$3.7 billion), respectively. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our interest income derived from margin financing and securities lending business was 24.4%, 17.3%, 29.8% and 28.0% of our total revenues, respectively.

In October 2019, we launched the Stock Yield Enhancement Program with a third-party brokerage company, allowing clients to earn interest on their U.S. securities positions by lending to such third-party brokerage company. Our clients can choose to opt in and out of the program at any time. When clients choose to participate in the program, we transfer their U.S. securities positions into a stock yield enhancement program account with the third-party brokerage company. Any interest income earned from these securities borrowed from our clients is split among the third-party brokerage company, the client and us on a monthly basis, after we receive payment from the third-party brokerage company.

Wealth Management Product Distribution Services

We offer online wealth management product distribution services under *Money Plus* brand through our *Futubull* and *moomoo* platforms, which provide our clients with access to mutual funds, private funds, bonds and other wealth management products, catering to their different investment targets and risk preferences. Except for certain limited securities investment advisory services provided in Hong Kong by Futu International Hong Kong, a corporation licensed for type 4 (advising on securities) regulated activities under the SFO, we had not provided any securities investment consultancy services in the PRC and/or any other jurisdictions during the Track Record Period and up to the Latest Practicable Date. Our income generated from wealth management product distribution services is categorized as other income in our financial statements.

- *Mutual Funds.* We selectively work with established fund houses to distribute their fund products, including money market, fixed income, equity and balanced fund products. In addition, our clients can opt to automatically invest idle cash in their accounts to money market funds to earn interest, which can be instantaneously redeemed upon trading, being the first online securities broker to offer such services in Hong Kong, according to CIC. Our clients can also choose to rebalance their fund allocation manually or automatically according to portfolio changes made by selected portfolio managers. We currently charge zero subscription fees from our clients, and share management fees based on negotiated commercial terms with the fund houses that provide mutual fund products, generally on a non-exclusive basis, such agreement being effective for an indefinite period. During the Track Record Period, our share of the management fees ranged from 0.04% to 1.4% of the AUM of the mutual funds.

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- *Private Funds.* In June 2020, we began to offer private funds on *Futubull*, including fixed income funds, hedge funds and alternative investments, to professional investors only. Professional investor clients can view private funds information and make purchases on *Futubull*. Usually, subscription or redemption of private fund products can be made on a periodical basis. Clients can register an order on the platform, which records the order information but does not immediately make the subscription or redemption of the fund products. The subscription or redemption only happens after the deadline for the subscription or redemption of the private fund products has passed. We collect client orders and submit them to the corresponding fund houses after the deadline of the subscription or redemption of the private fund products. After the fund houses confirm the subscription or redemption orders, for the subscription orders, we will confirm the shares of funds to the clients, and for the redemption orders, we will confirm the net asset value and transfer the amount to the clients' accounts after receiving the proceeds from the fund houses. We charge a subscription fee on the private funds in most cases, which will be deducted from clients' accounts. Along with the subscription payment, we share management fees and, in some cases, incentive fees with the fund houses. We generally charge a subscription fee between 0% and 1.5% of the AUM of the private funds.
- *Bond Trading.* In September 2020, we launched our bond trading services on *Futubull* for fixed income securities, which are available to professional investors only. For bond trading, we charge the individual paying clients a fixed commission rate based on the trading volume, a platform service fee per transaction and an annualized fee on settlement as custodian. We do not charge bond issuers any fees.
- *Cash Sweep.* We started to offer cash sweep services to *Moomoo Financial Inc.* clients in November 2021 per their consent. Cash sweep services automatically deposit a client's idle U.S. dollar cash into interest-earning bank accounts maintained by us every working day. This service allows clients to earn interest income on their idle cash, while such cash remains available for trading as the cash deposited in the bank ("swept cash") can be redeemed upon trading. When clients' idle cash (including swept cash) is greater in amount than the swept cash, the difference will be transferred from the securities account to the bank, and when the idle cash is smaller in amount than the swept cash, the difference will be automatically withdrawn from the bank to the securities account. In terms of fund flow, we open corporate accounts with banks to deposit clients' idle cash at floating or fixed interest rates. We provide our cash sweep clients with interest income at certain interest rates, and the difference between interest income earned on our corporate accounts opened with banks and the clients' interest income we pay to them at pre-agreed interest rates after deducting service fees becomes our income.

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We may enter into distribution or sub-distribution agreements with fund houses or other distributors to offer fund products. Fund houses or third-party platforms appoint us to distribute relevant fund products and pay commissions to us according to the terms of such agreements. At the same time, we are expected to comply with the terms specifying sales behavior in the distribution agreement. We do not disclose client information to the fund houses we collaborate with, and execute transactions solely through our own aggregated accounts. Our clients complete the entire transaction, access updated transaction records and monitor changes in positions through our *Futubull* and *moomoo* platform. The relevant fund management fees are charged by the funds, and are reflected in the net asset value of the funds. For mutual fund products, we share the management fees with the funds with no additional payment from the clients. For private fund products, we charge subscription fees in most cases and share the management fees with the funds.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, 17,573, 42,082, 139,178 and 202,736 clients held our wealth management products respectively, with client asset balance totaling HK\$6.1 billion, HK\$10.2 billion, HK\$18.8 billion and HK\$21.9 billion respectively during the same periods. As of June 30, 2022, we had established partnerships with 66 reputable asset management companies, and offered 151 fund products to clients on *Futubull* and 97 mutual fund products on *moomoo* to clients in Singapore.

Market Data and Information Services

We further enhance the investing experience with market data and information services such as news, research, and powerful analytical tools, providing clients with a data-rich foundation to simplify the investment decision-making process.

Market Data

We provide real-time stock quotes across the Hong Kong, Mainland China, the U.S., Singapore and Australia equity markets. Our Hong Kong Level II stock quotes are free for all Mainland China-based clients, being the first online securities broker in Hong Kong to do so, according to CIC, and for a monthly fee for clients based elsewhere. We also offer a variety of advanced stock quote services to our clients, for which we charge a monthly fee.

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. These filters are available across markets so our users and clients can monitor multiple markets simultaneously.

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On an individual company basis, our users and clients can review and track detailed fundamental and technical analyses, including recent transaction details such as trading volumes by major brokers, historical and current valuations, analyst ratings and target prices, operating and financial metrics, compiled news and research, and other company specific content.

For each mutual fund, our users and clients can monitor fund performances, review detailed quantitative analyses, read complied news and fund specific content, and understand fund basics such as duration, top holdings and geographic and industry concentrations.

We generally enter into agreements with our market data suppliers with the salient terms as follows:

- Term: Usually one year, some with automatic one-year renewal
- Service Content: Services may include license authorization of market data and information for external and internal usages, and direct access line for various data feed. Indirect data vendors are contractually responsible for maintaining high data quality and stable data access
- Fees: Usually a fixed charge annually for data license and access, plus additional per user data charges
- Payment: Mostly on a monthly basis, while some are on a quarterly or yearly basis

Information Services

We distill investment information and trends into engaging, accessible and diversified content, guiding investors along their investing experience and helping to simplify the decision-making process. Our information services generally include real-time news alerts, earnings releases and corporate announcements, topical industry or company-level deep dives and proprietary data flows such as IPO pipeline that we compiled from external sources. Our information services are provided to the users free of charge.

We aggregate and curate our content through our internal content creation team and our collaboration with third-party resources, including leading international news agencies and market centers. We deliver our content across different formats including short-form news, graphics and extensive articles. Content is grouped by animated tags that facilitate easy searches and allow our users and clients to customize information feeds.

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We generally enter into agreements with our information service suppliers with the salient terms as follows:

- Term: Usually one year
- Service Content: Services may include license authorization of market news, which are generally transmitted through API. Suppliers will be responsible for the API stability and content generation
- Fees: Generally a fixed charge annually, with a few per person/usage charges
- Payment: Periodic payment or pay-per-use

User Community

We broaden our reach and promote the exchange of information through *NiuNiu/Moo Community*, our social network services on *Futubull* and *moomoo* platform, which has embedded social media tools to create a network centered around users. This user community reduces information asymmetry, supports the discovery of investment opportunities, facilitates investment decision-making and establishes a sense of camaraderie among our users.

On *NiuNiu/Moo Community*, we provide a variety of interactive tools and free content, including:

- *Courses*. We provide our users with necessary investment knowledge through pre-recorded videos and graphical presentations on financial terminology, investment products and other investment related topics, leveraging both our in-house and external resources;
- *Live Broadcasts*. Our users can watch live broadcasts hosted by enterprise clients such as listed companies and fund houses. Live broadcasts include earnings results, product launch and promotions, as well as investor Q&A sessions, which can be later replayed on demand; and
- *Forum*. Our clients can post and share their trading history, investment views and market insights, and interact with each other.

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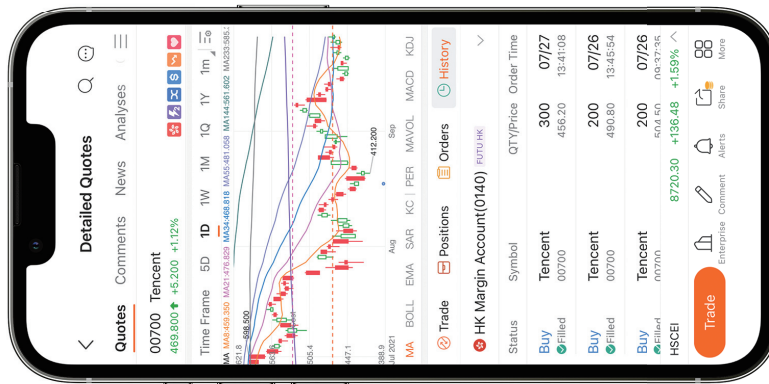
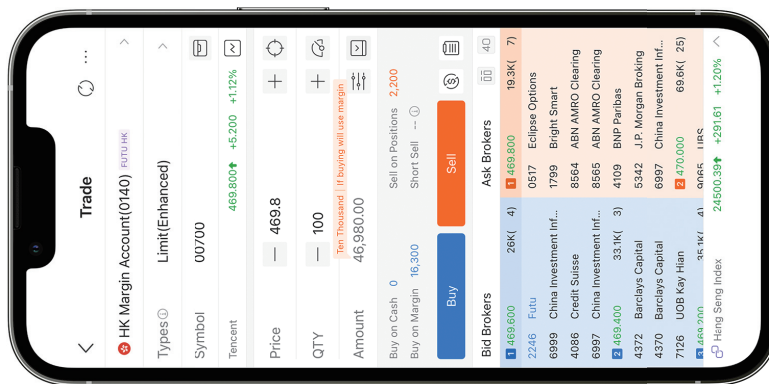
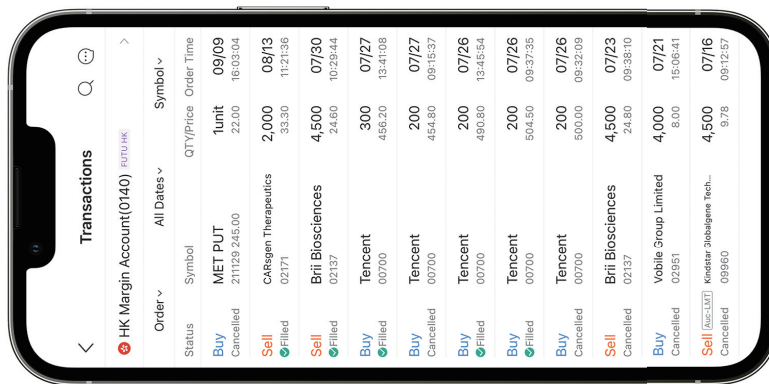
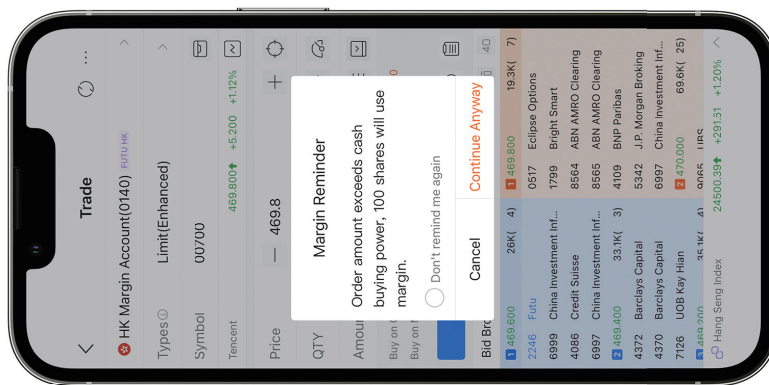
We have fostered a vibrant *NiuNiu/Moo Community*, which serves as an open forum for users to share insights, ask questions and exchange ideas, thereby enabling our users to maintain a strong sense of belonging. Specifically, *NiuNiu/Moo Community* offers the following unique features:

- **Participant diversity.** Our users can interact directly with other users, company executives and analysts within the investing community;
- **Extensive content.** Our content ranges from investing basics to sophisticated analytical guides for professional investors;
- **Lively and dynamic delivery.** All our content is designed for digital consumption and delivered through multiple media formats, such as short-form videos, recorded online lessons, chat rooms, live broadcasts and presentation slides; and
- **Feedback channel.** We use *NiuNiu/Moo Community* as an important source of feedback, which guides us to continue to optimize our product and service offerings.

As of June 30, 2022, over 1,500 enterprises, including public and private companies, fund houses, exchanges, and media and research institutions, held accounts in our user community. During 2021, on average we had an aggregate of approximately 190,000 UGCs generated on *NiuNiu/Moo Community* each trading day, which included a multitude of posts, comments and other interactive reactions to social media content. We continuously find ways to enhance the quality of content within our ecosystem. For example, we launched *NiuNiu Stars*, a systematic creator incentive program where we invite and reward content creators to further contribute to our user community with creative and high-quality content.

Margin Finance and Securities Lending

Trade Execution



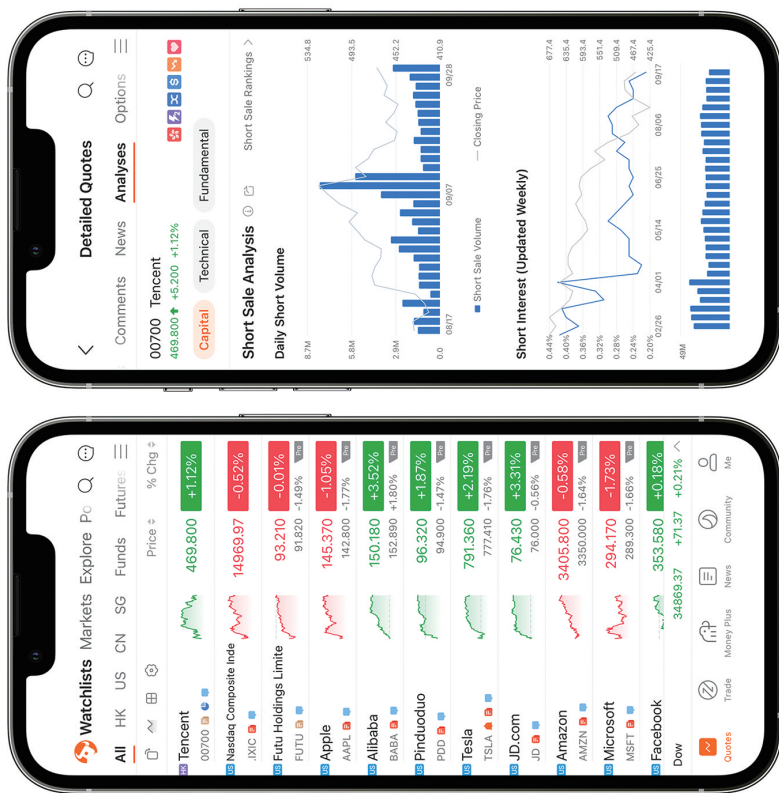
Trade Confirmation

Trading History

Trade Execution

Real-time Quote

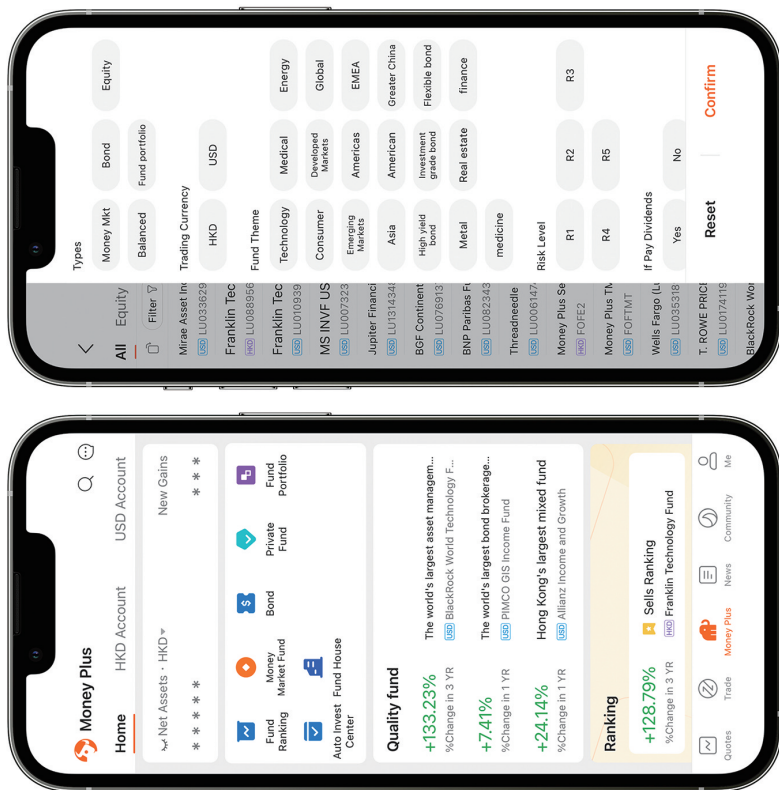
Market Data and Information Services



Detailed Analyses

Customized Watchlist

Wealth Management Services



Diversified Portfolio

Futu Money Plus Directory

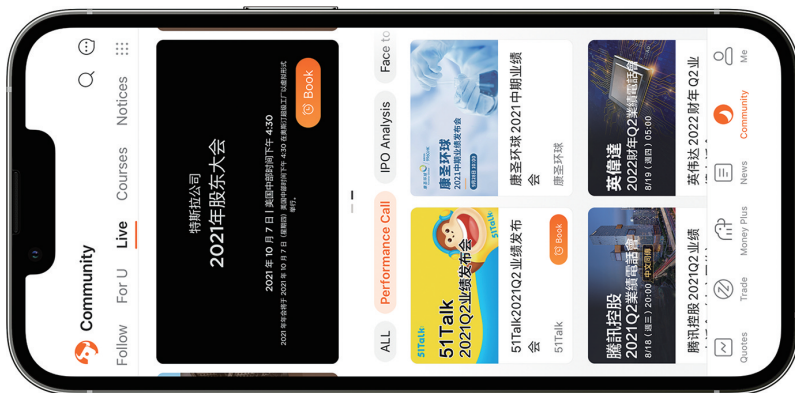
User Community



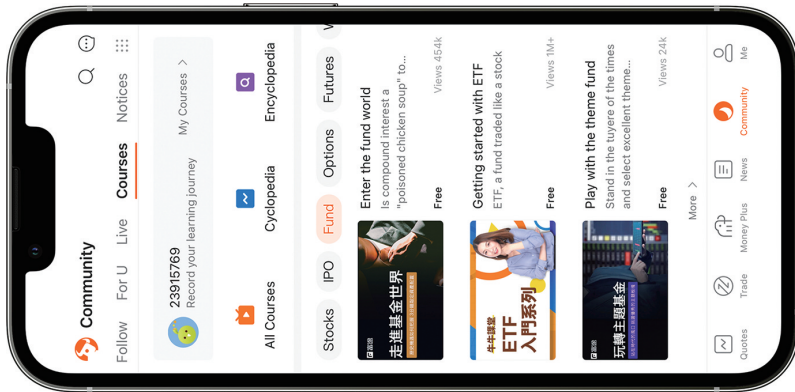
Tailored Highlights



Corporate Accounts



NiuNiu Live Broadcast



NiuNiu Classroom

Account Opening and Fund Transfer

Account Opening

Our users and clients can access all of our products and services with a single profile created on our platform. Opening a securities trading account has historically been a time-consuming and paper-intensive process. In developing our platform, we intended to reduce unnecessary friction and meaningfully improve the account opening process, which we believe is a significant driver of our client base growth. Our users can open multiple trading accounts for different products under a single profile at once, and we are the first securities broker to provide completely online-based account opening services in Hong Kong, according to CIC. Users can complete an account opening application online in as little as three minutes on our platform.

For investors who are residents in Hong Kong, the U.S., Singapore and Australia, the two steps involved in opening trading accounts with us are set forth below:

- *Step 1: Online application.* Users of our *Futubull* or *moomoo* 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 audio which discloses trading risks presented by our licensed personnel.
- *Step 2: Verification procedures.* Upon receiving a completed online application, our automated risk management system will proceed to verify the applicant's identity. We automatically use the information supplied by the user to perform know-your-client and anti-money laundering screening. If a user's application passes the screening, the user is approved for a trading account. When we discover errors or inconsistencies during our examination of the applications, a second tier of review may require the clients to go through a few additional steps to authenticate their identities or verify their credentials.

For residents in Hong Kong, the prospective client can choose to complete such procedures either online or offline.

- o *Online:* A prospective client is required 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 or other eligible jurisdictions, and (iii) transfer a minimum of HK\$10,000 or US\$1,500 into the trading account from that personal bank account, or mail to us a cheque in such amount together with relevant identification documents. 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.

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- o *Offline*: A prospective client is required to meet a member of our verification team and conduct the abovementioned verification process with paper copies of critical documents.

Our prospective clients outside of Hong Kong can also open accounts with us following similar procedures with specific adjustments based on relevant regulatory requirements. The vast majority of our clients have opened accounts with us online. For further details on our verification procedures, see “— Risk Management and Internal Control — Risk Management — Securities Brokerage Service Risk Management.”

Corporates that would like to open an account with us are required to satisfy our counterparty risk requirements, such as providing a deed of guarantee. In addition, we perform our corporate due diligence procedures (including but not limited to, obtaining and verifying its identity and its ultimate beneficial owner, and conducting background check and client risk assessments) in accordance with the anti-money laundering guidelines issued and updated by the SFC from time to time. After the corporate is onboarded, we monitor their transactions and conduct due diligence on an ongoing basis.

Fund Transfer

We provide timely and free fund transfer services to our clients, enabling them to capture fast-moving investment opportunities. We support various fund transfer methods for payment of Hong Kong dollar, US dollar and offshore RMB. For payment from Hong Kong bank accounts, we support fund transfer via eDDA, bank-securities account transfer, FPS, internet banking, ATM/over-the-counter transfer and cheque. For payment from bank accounts of other overseas regions, we support fund transfer via ACH, wire transfer, DDA and local payment apps. In particular, bank-to-brokerage fund transfers can be completed in as fast as a few seconds, and are normally completed within five minutes. We do not allow payment from PRC bank accounts. See “— Legal Proceedings and Compliance — Currency Conversion.”

We do not charge our clients any withdrawal fees from their trading accounts. Cash withdrawal from trading accounts are normally completed within one trading day, whereas withdrawals from fund products normally take approximately two to five trading days, due to longer fund settlement time of the fund houses.

As the technologies and practices in connection with online trading accounts opening services are in the 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 the markets we operate in, 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 by several regulators.” See “Risk Factors — Risks related to Our Business and Industry — Our online client onboarding

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procedures historically did not strictly follow the specified steps set out by the relevant authorities in Hong Kong, which may subject us to regulatory actions in addition to remediation, which may include, reprimands, fines, limitations or prohibitions on our future business activities and/or suspension or revocation of Futu International Hong Kong’s licenses and trading rights.”

CORPORATE SERVICES

We provide value-added corporate services to our corporate clients through our integrated enterprise service brand, *Futu I&E*, which primarily include IPO distribution, investor relations and marketing and ESOP solution services. We also provide trust services to corporate clients. As of June 30, 2022, we had 276 IPO distribution and investor relations clients as well as 519 ESOP solutions clients. We have become a long-term partner of many leading new economy companies in China.

IPO Distribution

We have acted as the underwriter on 81 Hong Kong IPOs and 15 U.S. IPOs during the Track Record Period, including a number of landmark IPOs, such as those of Meituan Dianping, Xiaomi and XPeng. As of June 30, 2022, we had participated in ten IPOs on the Hong Kong Stock Exchange with WVR structure, which is usually an indicator of a new economy company, and generated over HK\$10 billion of subscription amount each for 29 Hong Kong IPOs. From August 2020 to June 2021, we have also participated in 86.7% of U.S. IPOs conducted by China-based companies that raised over USD500 million.

Set out below is a breakdown of our IPO distribution activity as an underwriter during the Track Record Period:

	<u>For the year ended December 31,</u>			<u>For the</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>six months</u>
				<u>ended</u>
				<u>June 30,</u>
				<u>2022</u>
Number of IPO transactions	9	24	51	12

We promote global offerings through multiple channels including targeted push notifications and professional investor roadshows, and keep the lead underwriters updated on the orders placed with us on a daily basis. After the bookbuilding process, we will make reasonable allocations to investors who have placed orders with us in accordance with allocation results and the requirements of the relevant stock exchanges. After the listing, our underwriting fees will be settled based on the underwriting fee rates and our underwriting results.

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In addition, we also provide retail marketing services for Hong Kong IPO clients after commencement of Hong Kong public offerings through push notifications and deal information display on our platform.

Investor Relations and Marketing

We provide a wide range of investor relations and marketing tools and services to help companies manage their ongoing relationships with shareholders and market their brand. Through creating a corporate account on *NiuNiu/Moo Community*, our corporate clients can livestream their earnings release and product launch campaigns, post business milestones and advertisements, and interact directly with our users. Therefore, our platform provides a direct channel for our corporate clients to communicate with their existing and prospective investors and increase their brand and product awareness.

We enter into marketing agreements with our corporate clients, normally on a fixed term basis, and charge fees for promotional events based on negotiated commercial terms, taking into account market fee rates and the services provided. We provide flexibility to our clients in terms of settlement, allowing them to make payments before or after the relevant event, or in instalments.

ESOP Solution Services

We provide one-stop ESOP solution services to help our corporate clients with their ESOP administration, including the granting, vesting, exercise and settlement of the stock awards. In addition, we collaborate with other professional third parties to provide relevant tax planning and withholding services. Under our ESOP solution service agreements, we provide clients with instruction manuals, maintain and update our system periodically and backup our clients' data, and usually charge our clients quarterly based on the level of services they require, together with miscellaneous fees such as management and system implementation fees. If the customer has other needs such as training, we will make a separate quotation and enter into a supplementary agreement with the client for the required service. The service will be delivered after the clients' payments upon receiving our invoice.

ESOP solution has emerged as a signature corporate service of ours. We were the first online securities broker in Hong Kong to offer ESOP solution services to corporate clients, according to CIC. The service plays an increasingly important role in our client acquisition, allowing us to attract quality clients in a cost-effective manner. As of June 30, 2022, we had 519 ESOP solutions clients, covering the largest number of China's new economy companies listed overseas since 2018, according to CIC.

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Trust Services

We launched our trust services in Hong Kong in March 2021 to provide employee benefit trust and family trust solutions, encompassing company formation, trust establishment and trust management. We charge one-off trust establishment fees and annual administrative fees for our trust services in accordance with the trust service agreements signed with our clients in Hong Kong.

Bridge Loan Services

One of our subsidiaries in Hong Kong, 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. We provide limited bridge loan services to our selected clients on a case-by-case basis.

RISK MANAGEMENT AND INTERNAL CONTROL

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 over 20 years of experience in the auditing, compliance and regulatory profession, a certified accounting officer with the Hong Kong Institute of Certified Public Accountants with over 10 years of experience in the financial industry, a risk officer who has over 17 years of experience in trading and risk management businesses, and 4 officers seasoned in the brokerage industry. Our risk management committee empowers our risk management team, consisting of eight employees having relevant experience between 8 to 22 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, and internal audit teams 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.

Securities 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 evaluate 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 opening information is accurate, sufficient and in compliance with applicable regulations and our internal control policies. For Hong Kong-based clients who apply to open trading accounts with us online on *Futubull*, 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 or other eligible jurisdictions with the trading account to be opened with us and transfer no less than HK\$10,000 or US\$1,500. For our clients based outside of Hong Kong, we have similar due diligence procedures for account opening on *Futubull* in accordance with the relevant local laws and regulations. For offline account opening application, our verification staff will meet the prospective clients in person and interview them to verify the information submitted. On *moomoo*, Singapore, U.S. and Australia-based clients apply to open trading accounts with us online after submitting personal identity information and documents. As part of the customer due diligence and KYC process, the customer will also be screened against databases provided by third-party vendors.

For assessing investor suitability and risk profile, clients are required to provide personal financial status, investment experience and risk tolerance during the account opening process. For margin financing services, our eligible clients need to open margin financing accounts with us to have access to such services. When the funds in client accounts are not sufficient to purchase the desired securities and there is still sufficient balance in their credit lines, an alert will pop up and the eligible clients need to confirm the use of margin financing services. When a client submits an order to trade high-risk products, a pop-up window will be shown to ask for confirmation on their past related investment experience and understanding of the risk associated with the trades before proceeding.

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.

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Margin Financing and Securities Lending Risk Management

We maintain and regularly update a list of acceptable securities as collateral, and determine the margin ratio for each such security individually, taking into consideration factors including market value, historical price volatility and turnover, financial fundamentals, prevailing market conditions and margin ratio offered by other market players. Our risk management team monitors and adjusts the list of acceptable securities and their margin ratios on a regular basis, and will promptly amend the list in the case of significant market movement.

We calculate margin requirements of each of our clients on a real-time basis across different markets and currencies. To control the overall risks involved in our margin financing business, we have adopted a margin call mechanism to ensure that the clients meet the margin requirements. A margin call will be triggered by a decline in the value of the collaterals and requires our clients to pledge additional cash or acceptable securities to meet the required margin ratio.

Once a margin call is initiated, we will 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 48 hours and the value of the collateral remains below the required level, normally we will exercise our sole discretion to 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 closely monitors and manages clients' credit risks. The purchasing power for each eligible client is determined based on the collateral held across all of his/her trading accounts and the pre-approved margin limit. The values of all collaterals and client account status are reflected in the system on a real-time basis. We also closely monitor concentration levels of top stocks in margin financing and securities lending services and the potential impact on excess liquid capital among other regulatory requirements on an ongoing basis. The system will automatically send a reminder message to clients if the client accounts are under margin calls. This feature allows our clients to proactively manage their positions in a timely manner and minimize the forced liquidation being taken.

Effective from January 1, 2020, we have adopted FASB ASC Topic 326 — “Financial Instruments — Credit Losses,” or ASC Topic 326, which replaced the incurred loss methodology with the current expected credit loss methodology. We adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. See “Financial Information — Significant Accounting Policies and Estimates — Current Expected Credit Losses” for further details.

Wealth Management Product Distribution Risk Management

We perform due diligence on all investment products and assign risk ratings for each mutual fund, private fund and bond we offer. We also perform client suitability assessment where each client is required to fill in a suitability questionnaire to determine his or her risk profile. A client can only purchase wealth management products with risk ratings that match his or her risk profile. Only professional investors can access private funds and bonds through our platform. We are not subject to any liability towards our paying clients in the event of default or misrepresentation of any of these wealth management products offered by external parties.

For investment in fund products, since we process each purchase and redemption order automatically online and record in our system in real time, both our risk management team and our clients can monitor corresponding changes in positions and orders in real time. We then submit aggregated orders to the corresponding fund houses, and upon their confirmation of successful purchase or redemption, we will update the client's account accordingly. As a result, we do not undertake any credit risk in connection with our wealth management product distribution services.

In order to ensure data accuracy in the transaction settlement process, we have developed a strict verification and reconciliation process, including the reconciliation of purchase and redemption orders and changes in clients' positions with corresponding fund houses within each trading day.

For bond trading, we submit each buy and sell order to a financial institution partner through real-time APIs, and record such order in our system. For each buy order, we first freeze a client's cash based on the expected order amount, and then submit the order to a financial institution partner. When the trade is completed, we will update the client's account accordingly and unfreeze the order amount. We therefore ensure that the client has sufficient cash to close the trade.

User Community Risk Management

We have adopted a number of measures to monitor and manage potential risks in connection with information disseminated on our *NiuNiu/Moo 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/Moo Community*, to ensure that content that is against our platform policies and applicable laws and regulations will be removed in time and responsible content creators will be banned from posting. In addition, we frequently share information on stock investment risks on *NiuNiu/Moo Community* to provide warnings against fraudulent activities and raise our users' risk awareness.

Treasury policy

As a substantial number of R&D personnel are mainly located in Mainland China and R&D related expenses are primarily incurred in Mainland China, we typically maintain a certain level of cash balance in Mainland China to meet such payment obligations. As such payments are generally made around the same time each month, we historically would estimate the surplus funds in our cash balance. We have a designated staff that monitors the cash balance on a monthly basis. For such surplus funds, we maintain an internal process in determining how to deploy such funds, taking into consideration such factors as our short-term payment obligations, fund safety, liquidity and profitability. During the Track Record Period, we generally deployed our surplus funds either into short-term bank deposits or to purchase certain available-for-sale financial securities, which include wealth management products issued by a commercial bank in Mainland China.

Our daily or short-term wealth management products are generally quoted as low risk in the product description guides published by the issuers. In order to maintain flexibility in anticipation of cash needs, the Group can redeem the units held upon request. During the Track Record Period, when we did not invest in these wealth management products, the surplus funds were deposited directly with banks.

We closely monitor our daily cash flows, bank deposits, future payment obligations, interest rates and foreign exchange rates. We also prepare monthly consolidated fund report to provide a timely overview of our overall cash position and liquidity and risk control measurements. Such reports are reviewed by our Chief Financial Officer, our financial controller and relevant teams in Hong Kong. We conduct routine trust reconciliation to ensure the consistency between our bank account and corporate internal record.

We maintain segregated deposit accounts with banks and authorized institutions of sound credit ratings to hold cash on behalf of clients arising from our normal course of business. We also strictly segregate and independently manage funds in our clients' trading accounts. Cash held on behalf of our clients are segregated and deposited in financial institutions as required by the Securities and Futures Ordinance and the Uniform Net Capital Rule (Rule 15c3-1).

Internal Control Measures

To ensure the ongoing implementation of our internal control and risk management policies, we have adopted among other things, the following risk management and internal control measures:

- We have established an audit committee comprising independent non-executive Directors to supervise our internal control systems;
- We have established an independent internal audit team with direct reporting lines to the audit committee to provide an independent evaluation of the effectiveness of our risk management and internal control systems through, among others, the deployment of various internal audit projects, receiving whistleblower reports through various channels and following up and investigating alleged fraudulent activities and monitoring the management's continuous improvement over our risk management and internal control systems;
 - o Historically, we and our independent registered public accounting firm identified a material weakness in our internal controls in the course of auditing our consolidated financial statements as of and for the year ended December 31, 2019. The material weakness identified related to our lack of sufficient and competent accounting and financial reporting personnel with appropriate knowledge of U.S. GAAP to design and implement robust period-end financial reporting policies and procedures for the preparation of consolidated financial statements and related disclosures in accordance with U.S. GAAP and the financial reporting requirements set forth by the SEC. Such weakness has since been rectified, and starting in 2019, to remediate such weakness, we have implemented effective internal control steps by taking various measures, including:
 - (i) hiring additional qualified financial accounting staff with working experience of U.S. GAAP and SEC reporting requirements;
 - (ii) establishing clear roles and responsibilities for accounting and financial reporting staff to address complex accounting and financial reporting issues;
 - (iii) formalizing the procedures and controls regarding the financial reporting process, and developing and implementing a comprehensive set of U.S. GAAP policies and standardized financial closing and reporting procedures;
 - (iv) sufficient and appropriate training for financial reporting and accounting personnel from time to time; and

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- (v) enhancing internal control function to ensure proper design and implementation of our accounting policies and financial reporting procedures.

As of December 31, 2020, based on our management's assessment on the performance of the remediation measures, we determined that the material weakness had been remediated.

In preparation for the Listing, the Group has engaged an independent third party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting in October 2021 (the "**Internal Control Review**").

The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Sponsor and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity level controls and business process level controls, including revenue and receivables, purchases and payables, fixed assets, treasury, financial reporting, payroll and IT general controls.

The Internal Control Consultant performed the follow-up review in July 2022 to review the status of the management actions taken by the Company to address the findings of the Internal Control Review (the "**Follow-up Review**"). The Internal Control Consultant did not have any further recommendation in the Follow up Review.

The Internal Controls Review and the Follow up Review were conducted pursuant to Technical Bulletin-AATB1 "Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting" issued by the HKICPA and based on information provided by the Group and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. Our Directors are of the view that the information provided by our Group to the Internal Control Consultant is true, accurate, complete and not misleading in all material respects and our Directors consider the internal control of our Group is adequate.

- Our legal and compliance department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any update to applicable laws and regulations;
- We have established an internal control team to work closely with our business units to (i) offer professional advice with respect to risk management, (ii) improve internal process efficiency and monitor internal control effectiveness, and (iii) enhance risk awareness among our key management members; and
- We have developed additional measures, including implementation of internal control policy and provision of training programs to the relevant personnel.

Internal control on Treasury Policy

We have recorded the cash held on behalf of clients and the corresponding liabilities as accounts payable to our clients on the grounds that we are liable for any loss or misappropriation of our clients' monies. In Hong Kong, the "Securities and Futures (Customer Money) Rules" implementing the related provisions of the Securities and Futures Ordinance impose similar restrictions. Accordingly, to safeguard the cash held on behalf of clients, we have adopted among other things, the following internal control measures:

- to maintain segregated deposit accounts with banks and authorized institutions to hold cash on behalf of clients arising from our normal course of business;
- to deposit funds from clients in various banks and authorized financial institutions to reduce concentration risks;
- to regularly review the credit rating of these banks and authorized financial institutions to assess overall risks; and
- to strictly segregate and independently manage funds in our clients' trading accounts.

OUR USERS AND CLIENTS

Users and Clients

Our users engage *Futubull* and *moomoo* by downloading our mobile or desktop applications, or visiting our website, and registering a user account. Users are able to receive market data, technical analysis and other information services and engage in our community free of charge. The number of our users is determined based on the user accounts registered with *Futubull* and *moomoo*.

Our clients are defined as users who have opened trading accounts with us, and our paying clients are defined as our clients who have assets in their trading accounts with us.

Our clients are generally young and high earning. As of June 30, 2022, the average age of our paying clients was 37, which is also representative of the demographics of our user base. As of June 30, 2022, each of our paying clients had on average over HK\$310,000 of assets in their trading accounts with us.

Our users and clients are also active and loyal. In June 2022, our users who were active on a daily basis spent an average of 27.1 minutes per trading day on our *Futubull* platform. In June 2022, among the clients who visited *Futubull* and *moomoo* platform at least once, a client visited for 12.6 days on average. During the Track Record Period, we retained on average 98% of our paying client base on a quarterly basis, one of the highest retention rates among online securities brokers in Hong Kong, according to CIC.

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As of June 30, 2022, there were 15.6 million users who were yet to become our clients, representing an important pipeline for our client acquisition. We have significant potential to convert these users into clients and paying clients, and thus fuel the growth of our trading volume and revenues.

The table below sets forth the growth of our platform in terms of users, clients and client assets during the Track Record Period¹:

	As of/For the month ended December 31,			As of/For the month ended June 30,
	2019	2020	2021	2022
	Users	7,513,887	11,916,648	17,374,296
MAUs	615,199	1,831,807	2,219,274	2,060,040
Average DAUs	208,340	679,565	985,630	983,167
Clients	717,842	1,419,734	2,751,239	3,021,790
Paying clients	198,382	516,721	1,244,222	1,387,146
Total client asset balance (<i>HK\$ billion</i>)	87.1	285.2	407.8	433.6
Average paying client asset balance (<i>HK\$</i>)	439,182	551,923	327,758	312,579

Note:

- 1 For each relevant year/period prior to January 1, 2021, figures are only inclusive of those under *Futubull* or Futu International Hong Kong, as applicable. For each subsequent period since January 1, 2021, figures are also inclusive of those under *moomoo* or Moomoo Financial Inc., Moomoo Financial Singapore and Futu Australia, as applicable.

As of June 30, 2022, we had approximately 1.5 million users, over 614,000 clients and 365,000 paying clients on our *moomoo* platform, with a total client asset balance of approximately HK\$15.1 billion. Our MAUs and average DAUs on our *moomoo* platform for June 2022 were approximately 317,000 and 120,000, respectively. Our users and clients on our *moomoo* platform are primarily based in Singapore, the U.S. and Australia.

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Together with the growth of our trading platform, the client asset balance on our platform also increased for the markets that we serve. Set forth below is a breakdown by stock exchange of the total client asset balance on our platform during the Track Record Period:

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	<i>(HK\$ in millions)</i>			
Hong Kong Stock Exchange ¹	41,887	134,381	204,591	228,521
Major stock exchanges in the U.S.	23,790	93,829	124,630	113,557
Singapore Exchange	–	–	1,360	1,977
Australian Securities Exchange	–	–	–	23
Others ²	21,449	56,980	77,223	89,515

Notes:

- 1 Includes qualified northbound securities under Stock Connect listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.
- 2 Includes cash, balance of wealth management products and net balance of futures products.

Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, approximately 68%, 31% and 1% of our individual paying clients as of December 31, 2019, 55%, 44% and 1% of our individual paying clients as of December 31, 2020, 38%, 39% and 23% of our individual paying clients as of December 31, 2021 and 35%, 39% and 26% of our individual paying clients as of June 30, 2022 were related to Mainland China, Hong Kong and other markets, respectively. Solely based on the citizenship provided by the individual clients at the time of account opening or further updated subsequently, regardless of their residency, and the location where services were originated or conducted for corporate counterparties, our revenue related to Mainland China, Hong Kong and other markets accounted for approximately 69%, 30% and 1% of our total revenue in 2019, 60%, 39% and 1% of our total revenue in 2020, 52%, 46% and 2% of our total revenue in 2021, and 44%, 48% and 8% of our total revenue for the six months ended June 30, 2022, respectively. The decrease in the proportion of our revenue related to Mainland China during the Track Record Period was mainly due to our Group's global expansion strategies and our growing and high proportion of newly added overseas clients. The revenue breakdown is not derived from our management accounts and is solely based on the relevant business data and our management estimate. Our Group does not distinguish between markets or segments for the purpose of internal reporting and has only one reportable segment in its consolidated financial statements.

Corporate Clients

Our corporate clients are defined as corporate users to whom we have provided any of our corporate services. Our corporate client base has been expanding since we started to provide corporate services.

Our corporate clients actively contribute to our user community by delivering timely product and business updates to our users, thereby breaking down information asymmetry and providing bases for investment decisions.

User and Client Acquisition

We grow our client base mainly through (i) word-of-mouth referrals, (ii) corporate services and (iii) online and offline marketing and promotional activities. For further details, see “— Sales and Marketing” below.

User and Client Support

We have developed our proprietary and customized customer service system to connect our users and clients with our customer service staff and technology experts directly through online chat or customer service hotline 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. Users can also post feedback and suggestions on *NiuNiu/Moo Community* tagging our official accounts, product managers or even our chief executive officer, which we will strive to respond to promptly.

We also proactively seek user and client feedback. For example, we initiate online communications and activities on major social media platforms and our *NiuNiu/Moo Community* to seek feedback from our users and clients. We reach out to our clients to discuss their experience with our platform and solicit ways in which we can improve. We also provide our corporate clients with similar services, where we have dedicated customer service teams to attend to any issues our corporate clients may encounter, striving to respond as soon as possible. Our corporate clients can also reach out to us anytime and discuss any improvements and changes to the services that we provide.

SALES AND MARKETING

Word-of-mouth referrals

We grow our client base through word-of-mouth referral, thanks to our premier user experience and high client loyalty. As a result of our high brand awareness, we benefited from significant organic traffic, contributing to over half of our new paying clients in 2020 and 2021.

Corporate Services

We also bring in clients through corporate services. For example, our ESOP solution services have emerged as our signature corporate service and proved pivotal for efficient client acquisition. Once an ESOP account of a corporate is established, we can connect with beneficiary employees, and are better positioned to serve their ongoing stock trading needs once their stock awards are vested. This has allowed us to attract quality clients in a cost-effective manner. By providing IPO distribution services to new economy companies with high demand in the market, we can promote our brand and attract new clients.

Online and offline marketing and promotional activities

We cooperate with external marketing channels for user and client acquisition. For example, we purchase keyword search services on search engines for marketing purposes, post promotional videos on popular video sharing sites, host online seminars and lectures, and periodically send e-mails and messages to our users about our latest services and events. In addition, we also conduct offline advertising via outdoor bulletin boards, magazines, campus promotions and television commercials, which plays an important role in generating brand exposure.

We also conduct promotions and marketing campaigns on our platform from time to time, such as offering free commissions to clients who open trading accounts with us within a certain period of time. We have a marketing committee responsible for formulating our monthly marketing and brand promotion strategies and guiding our dedicated marketing team for strategy implementation. We have a skilled and dedicated marketing team that is familiar with and in sync with ever-changing market trends and preferences.

During the Track Record Period, we recorded selling and marketing expenses of HK\$164.7 million, HK\$385.3 million, HK\$1,392.1 million and HK\$507.2 million (US\$64.6 million) for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

OUR TECHNOLOGY

Our commitment to improving our technology has played an important role in our ability to continually develop and improve our products and services for our users and clients, which has enabled us to maintain our competitive advantage and facilitate the execution of our growth strategies. The purpose-built nature of our technology enables our platform to be adaptable and we can react quickly to industry and regulatory changes in a highly scalable way.

In May 2020, we established a technology committee headed by Mr. Leaf Hua Li, our founder, chairman and chief executive officer, and comprised of key personnel in our research and development department. The key responsibilities of the technology committee include formulating technology development strategies, optimizing the existing technology infrastructure and implementing large-scale technology projects. The committee members have extensive experience in the industry and will further boost our technology leadership and advancement.

Industry-leading proprietary integrated cross-market system

Our proprietary, easy-to-use and integrated cross-market system allows our clients to execute trades for securities listed on the Hong Kong Stock Exchange, the major exchanges in the U.S., the Singapore Exchange or the Australian Securities Exchange or qualified under the Stock Connect and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange from a single platform. The system provides unified functionality extending from core trading to risk management, as well as multi-currency and multi-market settlement through our self-developed modularized architecture, supported by real-time advanced service-level-agreement monitoring and quality monitoring services, in order to ensure a superior client experience. By virtue of our technical edge, the online application process for opening an account can typically be completed in as little as three minutes, also an industry high among our other major competitors in the Hong Kong retail securities brokerage market, according to CIC.

Highly stable, scalable and secure system

Our distributed, cloud-based infrastructure is the foundation of our trading system, employing a number of interrelated servers to mitigate the risk of a single server disrupting the whole system. We invest significantly to ensure platform stability, and achieved over 99.9% of service availability rate on our platform in 2020 and 2021, the highest among securities brokers in Hong Kong, according to CIC. As of June 30, 2022, our platform was able to support approximately 1,004 Hong Kong listed securities trades per second, being the highest among our major competitors in the Hong Kong retail securities brokerage market, according to CIC.

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.

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 efficiency of user interface development and the stability and consistency of performance and functionality among different user interfaces, which eventually improves user experience.

We recognize that the reliability and security of our platform is critical to our clients. Our platform features an automated multi-level protection mechanism to ensure the services we deliver to our users and clients are secure. We have adopted strict security policies and measures, including data encryption and a two-factor authentication function, to protect our proprietary data such as clients' personal information and trading data. Our technology system analyzes and predicts malicious attacks and enables us to respond to challenges and attacks promptly.

Agile research and development capabilities

Through the construction and continual optimization of research and development tools and components, we have achieved a high level of research and development efficiency, while ensuring service quality and system stability. In 2021, we released 153 application upgrades and 5,689 new product features for our users, the most in the Hong Kong retail securities brokerage market, according to CIC. 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 four areas, including finance business, internet business, big data and growth as well as engineering technology. Our core research and development team consists of experienced engineers and technology experts with extensive experience in structure design supporting massive transactions, and the majority of them have professional working experience with leading internet and technology platforms in China. Most of our research and development personnel are based in Shenzhen, China. See “— Data Security and Privacy” below for further information.

DATA SECURITY AND PRIVACY

We have established a comprehensive security system, *Futu Monolith Safety Protection System* (“**FMSPS**”) to provide industry-leading level of protection of information related to our clients, their accounts and their transactions with the support of our network situational awareness and risk management system. FMSPS has obtained ISO27001 Information Securities Management System Certification.

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 apply encryption algorithms with high security levels to all user activities such as logins, account asset reviews and transaction records to ensure data safety. Our official website is equipped with a 2048-bit EV certificate, and all data transmissions are completed through encrypted channels. Our platform maintains a high data protection standard, with a random key applied to each data transmission to ensure the security of the information.

To ensure data security and avoid data leakage, we have established stringent internal protocols under which we have clear instructions on how to handle and store the different types of data that we receive. We categorize the operating, business and management data that we receive into varying levels of sensitivity. For confidential personal data, we grant classified access only to limited employees with strictly defined and layered access authority. We have 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. We also seek consent from our users as to the methods and ways in which we collect and use their data, in accordance with the data protection laws and regulations in the relevant local jurisdictions.

On the client side, we have developed a proprietary two-factor authentication function to provide enhanced account security. If a client logs in to his or her account through a different device, both the account password and a dynamic verification token are required for authentication. Two-factor authentication is also required when a client wants to access his or her core data, such as account opening information and account assets. We store such core data on an isolated network separately from other data, which has greatly improved our data security. A client can also activate the two-factor authentication function for placing trading orders, where he or she is required to provide both the transaction password and a dynamic verification token.

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Aside from maintaining regular self-inspection to ensure compliance, we have also engaged external law firms and professional cybersecurity teams to conduct regular cybersecurity studies, examinations and inspections so as to optimize our systems and boost our risk prevention capabilities. While we are subject to similar data and privacy protection requirements in other markets in which we operate, including the U.S., Singapore and Australia, we have been closely monitoring the latest regulatory developments and optimizing our compliance practices. We continuously and actively communicate with regulators, strengthen internal training to enhance employees' awareness on personal information protection, and hone our capabilities of safeguarding personal information. See "Risk Factors — Risks Related to Our Business and Industry — If we fail to protect our platform or the information of our users and clients, whether due to cyber-attacks, computer viruses, physical or electronic break-in, breaches by third parties 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."

INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. We currently hold a collection of intellectual property rights relating to certain aspects of our business operation. As of June 30, 2022, we owned over 100 computer software copyrights in China. We also maintained trademark registrations worldwide, including over 340 in Mainland China, over 120 in Hong Kong, 20 in the United States, 40 in Singapore and over 200 in other countries and regions. As of June 30, 2022, we had over 150 patents granted in China, 3 patents granted in Hong Kong, 10 patents granted in Singapore and 10 patents granted in Australia. As of June 30, 2022, we had registered over 100 domain names.

We protect our intellectual property rights, including trademarks, patents, copyrights and domain names, strictly in accordance with the relevant laws and regulations. We regularly improve and update our intellectual property management system in line with the development of our business. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We also typically require our employees who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations.

For details of our intellectual property rights, see "Appendix IV — Statutory and General Information — B. Further Information about our Business — 2. Intellectual Property Rights".

OUR CUSTOMERS AND SUPPLIERS

We have a broad base of customers, primarily consisting of (i) paying clients and (ii) corporate clients. Our top five customers over the Track Record Period accounted for less than 10% of our total revenue for each of the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022. To the best of our knowledge, all of our top five customers during the Track Record Period are independent third parties. None of our Directors, their respective associates or any shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five customers during the Track Record Period.

We have no major suppliers due to the characteristics of our principal business activities.

COMPETITION

The market for online securities brokerage services is emerging and rapidly evolving. As a pioneer in online securities brokerage market, we position ourselves as an online retail securities broker based in Hong Kong with an expanded international footprint in Singapore, the United States, Australia, as well as strong background and abundant resources in the PRC. We currently compete with two types of competitors in these markets, including (i) pure-play online securities brokerage companies; (ii) traditional securities brokerage companies, featuring a combination of online and offline channels, and securities brokerage business units within commercial banks.

We compete primarily on the basis of:

- client base and user engagement;
- technology infrastructure;
- research and development capabilities;
- security and credibility of the platform;
- brand recognition and reputation;
- operational compliance with applicable regulatory requirements; and
- operating leverage.

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. See “Risk Factors — Risks Relating to

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our Business and Industry — We face significant competition in the online securities brokerage and wealth management industries, 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.”

EMPLOYEES

As of June 30, 2022, we had a total of 2,586 employees. Among these employees, 2,286 employees were located in Mainland China, 147 employees were located in Hong Kong, 86 employees were located in the United States, 48 employees were located in Singapore and 19 employees were located in Australia. We had a total of 847, 1,315 and 2,318 employees as of December 31, 2019, 2020 and 2021, respectively.

The following table sets forth a breakdown of our employees by function as of June 30, 2022:

	As of June 30, 2022	
	<i>Number</i>	<i>%</i>
Research and development	1,641	63.5
Customer services and operations	396	15.3
General and administration	349	13.5
Marketing	200	7.7
Total	<u>2,586</u>	<u>100.0</u>

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 the PRC. We are required under PRC 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 are also required under Hong Kong laws to enroll all eligible employees in Hong Kong to their mandatory provident fund (“MPF”) scheme. Both the employees and us are each required to contribute certain percentage of an employee’s salary (subject to a statutory cap at HK\$1,500) per month to a retirement scheme that is registered as a MPF scheme. For our employees in the United States, we make similar contributions to a defined contribution retirement plan under section 401(k) of the Internal Revenue Code. For our employees in Singapore, we make payments to the Central Provident Fund as part of their defined contribution retirement plan.

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.

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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 ranges typically between six months and two years after the termination of employment, depending on the jurisdiction in which our employees are located, 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 had not experienced any significant labor disputes during the Track Record Period.

HEALTH, WORK SAFETY, SOCIAL RESPONSIBILITY AND ENVIRONMENTAL MATTERS

We do not operate any production facilities. Therefore, we are not subject to significant health, work safety, social or environmental risks. We strive to provide employees with a safe and healthy work environment. We have not had any significant workplace accidents in our history. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

We have adopted internal policies on (i) our governance regarding ESG risks, (ii) our ESG strategies and (iii) identification of the relevant metrics and targets in the long run. Such internal policies include our Code of Business Conduct and Ethics, Anti-Corruption Compliance Policy and Employee Code of Conduct. Our Board of Directors is responsible for the oversight and management of key ESG risks, and the implementation of our ESG strategies is taken care by our management and relevant departments. We are aware of the impact of potential changes in social trend and political policies relating to ESG on our business model, and will keep close monitor of the relevant changes in accordance with the aforementioned scheme. See “Risk Factors — Risks Related to Our Business and Industry — Increasing focus with respect to environmental, social and governance matters may impose additional costs on us or expose us to additional risks. Failure to comply with the laws and regulations on environmental, social and governance matters may subject us to penalties and adversely affect our business, financial condition and results of operations.”

During the Track Record Period and up to the Latest Practicable Date, our business, financial conditions and results of operations had not been materially adversely impacted by ESG risks including those relating to health, work safety, environmental, social or climate-related issues. We do not operate any production facility and the potential impact of environment related regulatory development on our business operations and financial conditions is limited. As an online financial services platform, we do not currently foresee any materials risks in this regard. However, we have been committed to mitigating any potential risks in the mid- to long-term. For instance, we proactively monitor risks posed by climate changes, assess their potential impact on our business operations, and take appropriate actions to mitigate such risks. The primary risks posed by climate changes to our business include physical risks and transition risks. The physical risks mainly result from extreme climate

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hazards and long-term chronic risks. In addition, sea level rise and other risks may result in depreciation and loss of physical assets. We have formulated emergency measures for extreme climate hazards to minimize the risk of interruption to our operations and loss of assets. In addition, as part of our carbon neutrality initiatives, we have taken steps to deal with transition risks arisen from accelerated transformation to low-carbon lifestyle globally.

We endeavor to limit our carbon emissions and promote green operations during the ordinary course of business and it has become part of our corporate culture. As an online financial services platform that provides almost all of our financial services online, we have been a pioneer in the industry to embrace paperless trading environment and substantially decrease the consumption of resources including water, electricity and paper in our daily operations. In July 2018, we were the first securities broker in Hong Kong to offer completely online-based account opening services, according to CIC. Clients can access their monthly or daily statements through our *Futubull* and *moomoo* platform. We also send electronic statements for their easy reference through emails, and therefore completely get rid of paper applications, orders and statements which have been heavily used by traditional financial service providers since long ago and till today. We have been constantly expanding our business operations supported by public cloud services, with future plans to limit utilization of physical data centres. We anticipate substantial reduction of procurement and operational costs through the transfer to public cloud services, and will be able to support the further reduction in energy consumption brought by upgraded cloud technologies. In addition, we have also initiated our upgrade of technology infrastructure to Go language and cloud-native architecture since 2022, with anticipated reduction of server costs through auto scaling after completion of the upgrade and expected enhancement in resource consumption efficiency.

We operate most of our businesses digitally and utilize cloud-based services to reduce consumption of paper from client end and in all the offices and renovate our offices with environmental-friendly materials, in an effort to keep our carbon consumption low. For example, we arrange our office superintendents to inspect the building regularly and turn down the lights in empty rooms and urge the employees to turn off the computers before leaving office. We have imposed office policies for air conditioning in considerations of season, weather and use scenarios to manage the energy consumption of air conditioning and have displayed notices on environmental protection around the office to remind our employees of the potential positive environmental impact that could be brought by taking steps forward.

We have taken a series of health and safety measures in response to the COVID-19 pandemic to protect our employees, including the following:

- *Control over the entry and exit points of our office premises.* We require persons who come into our office to wear masks and pass temperature checks, before they are allowed to enter our premises. Our employees are also required to present their staff identification cards, and visitors are required to provide their personal information before entering. Our entrances and exits are also located in different parts of the building, minimizing interaction.

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- *Office premises and equipment management.* We arrange for frequent disinfectant or alcohol cleaning of our common areas, including conference rooms, pantries, corridors and lavatories, as well as office workstations and equipment. We also ensure proper air circulation within our office premises. In addition, we recommend our employees to dine separately to reduce the risk of cross-infection.
- *Contingency arrangements.* We have established protocols to timely update our employees in COVID-related emergencies. Employees who have been to high-risk areas, or have recorded high temperatures, are required to self-isolate and undergo testing before they are permitted to return to our office premises. For our headquarters in Shenzhen, China, we have a dedicated isolation room should we ever encounter an emergency.

Social Responsibility

Contributing to the wider community

We are committed to social responsibility and contributing to the wider community. First and foremost, we will continue to lower investment barriers and make investing easier for everyone. Our free investment videos on *Futubull* and *moomoo* provide users with investment knowledge and help them better understand investment risks. We seek to improve our user's financial literacy, which we believe is critical for them to achieve their long-term investment goals.

Over the years, we have participated in the "Trailwalker" fundraising event organized by Oxfam, the contributions of which are used to alleviate global poverty and provide disaster relief. We encourage our employees to participate in this hiking event while also raising awareness on inequality and fostering a mindset of social responsibility.

We have always strived to bring positive benefits to the environment and wider society as a whole. Our Hong Kong subsidiary, Futu Securities, regularly participates in voluntary shoreline cleanup operations in Hong Kong. The operations aim to support the community and respond to the problem of marine debris with actions to create a cleaner coast, which are in line with our continuous commitment to sustainability and innovation.

During the COVID-19 pandemic, Futu Securities has also distributed testing kits and masks to the general public in Hong Kong through simple sign-ups on the *Futubull* platform, contributing to the aggregated efforts of the community to fight against the pandemic.

Employee development

As a “people’s first” company, our employees are an integral part of our business, and we seek to identify and develop talents through the following methods:

- *Comprehensive training.* We provide our employees with a variety of training, and support their personal development. In the six months ended June 30, 2022, we have scheduled training sessions over many different topics that had an accumulated attendance of 30,170, allowing our employees to broaden their knowledge in different areas.
- *Leadership courses.* We also provide our employees with leadership training based on their different career development stages, ranging from reserve deputy team leader to director level and above training. We also provide a series of management and leadership courses every quarter for management at all levels. In 2021, our employees collectively spent over 430 hours on management training. For the six months ended June 30, 2022, our employees collectively spent over 2,518 hours on online and offline management training, the accumulated attendance of which reached 1,299.
- *Graduate training.* In July 2021, we also provided a full-time training program to 145 fresh graduates over a week, to help them gain workplace skills, accumulate industry knowledge and quickly integrate into the working environment.
- *Personal qualifications.* We also encourage and sponsor our employees to further their education and obtain additional qualifications, including professional and recognized qualifications within the financial industry.

Health, safety and wellbeing

It is our priority to protect the physical and mental health, safety and wellbeing of our employees, and we have implemented various internal policies and measures accordingly, including:

- *Healthy work-life balance.* Together with our comprehensive benefits package, we encourage our employees to pursue a healthy work-life balance. We provide fitness facilities and regularly organize social and team-bonding activities to ensure a positive and cohesive work environment for all.

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- *Internal feedback.* From time to time, we conduct internal employee satisfaction surveys on an anonymous basis to obtain feedback and address any issues accordingly. In 2021, we invited over 1,100 employees to partake in a survey regarding the organizational and talent management of our Group, for which we achieved a response rate of over 76%. Based on the survey feedback, we were one of the four winners out of 249 companies of the “2021 China Organizational Capabilities Survey Best Practice Award” co-sponsored by KNX, Tencent Consulting and YCA Y-Triangle CEO Alliance, recognized for our capabilities to achieve effective internal management.
- *Anti-discrimination.* We have strict policies on equal employment opportunities, prohibiting any form of discrimination based on race, color, belief, religion, gender, sexual orientation, among others.
- *Anti-sexual harassment.* We have a zero-tolerance policy on sexual harassment within and outside the workplace, and we treat any complaints we receive seriously and in strict confidence. We have established effective reporting channels, such as via email and corporate social messaging accounts, and will retain written evidence in relation to all complaints to be handled by our relevant departments. We will also review our decisions, should the relevant person(s) disagree with the results of our internal investigations.

Proper business practices

We have implemented internal control policies in relation to our business operations, including anti-corruption and compliance, anti-money laundering, anti-bribery, fraud, business conduct and ethics. We require our employees to complete relevant exams each quarter, and our employees have already accumulated 14,798 attendance and over 3,677 learning hours on compliance matters for the six months ended June 30, 2022.

We have established several layers of scrutiny, including establishing our internal audit department responsible for leading investigations and reporting cases to the audit committee, and our internal control department that assists the internal audit department with investigation and follow-ups on rectification and improvement measures. Our suppliers and other business partners are generally required to enter into an anti-bribery agreement with us prior to working with us. We adopt anti-money laundering policies and review and update policies and procedures, if needed, as part of our framework in managing money laundering and terrorism financing risks. We also regularly conduct internal audits on our high-risk business operations and management areas, and evaluate the effectiveness of our internal control, in order to ensure compliance with the proper and ethical business practices which we seek to uphold. In response to potential enhanced regulatory scrutiny with regard to digital communications and trading practices by brokers, our Group has promulgated and adopted internal policies, protocols and guidelines to manage the relevant regulatory and reputational risks. During the Track Record Period and up to the Latest Practicable Date, our Group had not (i) sold any of its clients’ trading data to third-parties to further front-run clients’ orders or (ii) engaged in any misleading communications

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and trading practices to encourage its clients to trade. See “Risk Factors — Risks Related to Our Business and Industry — Any future change in the regulatory and legal regime for the securities brokerage and wealth management industries regions where we operate may have a significant impact on our business model. Potential enforcement actions against industry peers could lead to new rules or requirements and may subject us to higher regulatory scrutiny. If we are deemed to have been engaged in any misleading digital engagement practices or trading practices, there could be material adverse effect to our business operations, reputation and prospects.”

We also have whistleblowing policies in place and have set up various reporting channels, whilst making every effort to ensure the confidentiality of any reports in accordance with the applicable laws and regulations. Our employees responsible for handling whistleblower reports are required to sign a confidentiality agreement, and any employee who discloses any information to any reporters or investigators in contravention of the relevant laws and regulations will be dismissed.

Environmental protection

As a high-tech company, we encourage our employees to adopt sustainable practices in order to reduce our carbon footprint, including promoting energy-saving measures, encouraging online virtual office, reducing paper wastage and avoiding unnecessary travels, all of which are included in our employee handbook. We have also cooperated with a ride-hailing company to provide employees with electric vehicle ride home and thus reduce carbon emissions. We actively respond to any government requirements on waste sorting, recycling and waste reduction, in an effort to further lessen waste and environmental pollution.

LICENSES AND REGULATORY APPROVALS

Licenses, Permits and Approvals

We are required to obtain various licenses, permits and certifications for our operations. As of the Latest Practicable Date, we held 51 licenses, registrations and memberships across Hong Kong, Singapore, the U.S., Australia and Europe. Our Group had complied with the requirements and conditions of the material licenses it held in all material aspects during the Track Record Period. As of the Latest Practicable Date, we had duly obtained and maintained all material licenses, permits and certificates required by laws and regulations for our operations, and such licenses, permits and certificates have remained in full effect. As of the Latest Practicable Date, Shenzhen Futu held a Valued-added Telecommunication Business Operation License (《增值電信業務經營許可證》, the “**ICP License**”), a Radio and Television Program Production and Operation License and an Internet Culture Operation License; and Hainan Caixuetang held an Internet Culture Operation License, a Radio and Television Program Production and Operation License, an ICP License and a Publication Operation License. As confirmed by our PRC Legal Advisors, we are not required to obtain any other licenses from any regulatory authorities for our presence in the PRC.

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Regulated Activities in Hong Kong

As of the Latest Practicable Date, Futu International Hong Kong, one of our operating subsidiaries, was licensed under the SFO to conduct the following regulated activities:

<u>Regulated Activities by Type of License</u>	<u>Effective Date</u>
Type 1 (Dealing in Securities)	October 2012
Type 2 (Dealing in Futures Contracts)	July 2013
Type 3 (Leverage Foreign Exchange Trading)	December 2020
Type 4 (Advising on Securities)	June 2015
Type 5 (Advising on Futures Contracts)	August 2018
Type 7 (Providing Automated Trading Services)	August 2019
Type 9 (Asset Management)	July 2015

In addition to the above licenses, one of our subsidiaries in Hong Kong 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. We have also been registered as a Mandatory Provident Fund Intermediary with the Mandatory Provident Fund Schemes Authority in Hong Kong. For further details, please refer to “Regulation – Overview of the Laws and Regulations Relating to Our Business and Operations in Hong Kong.”

Regulated Activities Overseas

For our overseas operations, we hold licenses, registrations and memberships in Singapore, the U.S., Australia and Europe. In particular, Moomoo Financial Singapore is a licensed corporation registered with the Monetary Authority of Singapore with the Capital Markets Services Licence (CMSL). Moomoo Financial Inc. is registered as a broker-dealer with the SEC and is a member in good standing with FINRA, authorized to conduct business as an introducing broker in compliance with the SEC and FINRA rules. Futu Clearing Inc. is also a member in good standing of FINRA and DTCC capable of providing clearing business in the U.S. For further details, please refer to the “Regulation” section of this document. Futu Australia, which holds an Australian Financial Services License, is regulated by the Australian Securities and Investments Commission.

REGULATORY DEVELOPMENT

PRC Cybersecurity and Data Protection

We have taken the following steps to ensure compliance with the relevant requirements of CAC in light of the recent development in China's cybersecurity and data protection regulatory framework.

Measures for Cybersecurity Review (《網絡安全審查辦法》, the “Revised Cybersecurity Review Measures”)

The Revised Cybersecurity Review Measures were jointly promulgated by the CAC and other twelve PRC regulatory authorities on December 28, 2021 and took effect on February 15, 2022. The Revised Cybersecurity Review Measures provide that, among others, (i) the purchase of cyber products and services by critical information infrastructure operators (the “**CIIOs**”) and the network platform operators (the “**Network Platform Operators**”) which engage in data processing activities that affect or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office (網絡安全審查辦公室), the department which is responsible for the implementation of cybersecurity review under the CAC; and (ii) the Network Platform Operators with personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office.

Our PRC Legal Advisors are of the view that the proposed Listing in Hong Kong and our current business operations do not fall within the scope in which it is required to apply for such cybersecurity review as required by the Revised Cybersecurity Review Measures. The reasons are as follows:

- (i) the term “listing abroad (國外上市)” under the Revised Cybersecurity Review Measures exempts listing in Hong Kong from the mandatory obligation of ex-ante declaration of cybersecurity review;
- (ii) according to the Security Protection Regulations for Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), the protection authorities are responsible for identifying CIIOs in various industry sectors and timely notify the CIIOs concerned of such identification results. As of the Latest Practicable Date, the Company had not been notified by any protection authority of it being recognized as a CIIO;

- (iii) the Company is a Network Platform Operator under the Revised Cybersecurity Review Measures. According to the assessment of the PRC Legal Advisors on the internet security, data security and protection of personal information as of the Latest Practicable Date, it has not found that we had any national security risk clearly set forth under Article 10 of the Revised Cybersecurity Review Measures. In addition, except the security risks listed in the Article 10 of the Revised Cybersecurity Review Measures, no PRC laws and regulations provide further clarification or guidance on the criteria for determining “other factors that may endanger the security of critical information infrastructure, network security or data security” or “affect or may affect national security”. Therefore, taking into account that the Group has adopted internal measures to ensure compliance and will continually and closely monitor the legislative process and seek guidance from relevant regulatory authorities in a timely manner to ensure its compliance, as of the date of this document, our PRC Legal Advisors are of the view that the Revised Cybersecurity Review Measures will not materially adversely affect the Group; and
- (iv) the Company also confirmed that, based on the due diligence conducted by its PRC Legal Advisors, as of the Latest Practicable Date, it had not received any notification from the Cybersecurity Review Office of CAC or other authorities requiring the Company to apply for cybersecurity review. In addition, the Company has not been subject to any punishment or any interview, investigation, legal proceedings or other regulatory measures taken by the Cybersecurity Review Office of CAC or relevant regulatory authorities for its failure to apply for cybersecurity review.

The consultation papers for Network Data Security Management Regulation (《網絡數據安全管理條例(徵求意見稿)》) published on November 14, 2021 (the “Draft Regulation”)

According to the Draft Regulation, a data processor must apply to CAC for cybersecurity review if its proposed listing in Hong Kong affects or may affect national security.

Notwithstanding the above, as advised by our PRC Legal Advisors, the Draft Regulation is in draft form for public consultation purpose and had not been formally adopted as effective laws as of the Latest Practicable Date. It remains unclear when and to what extent the Draft Regulation will take effect in its current draft form. Certain key legal concepts in the Draft Regulation, such as “affect or may affect national security”, remains unclear.

That said, our PRC Legal Advisors are of the view that, assuming the Draft Regulation is implemented in its current form, our PRC Legal Advisors do not reasonably expect any substantive difficulties for the Group to be in compliance with the Draft Regulation in all material aspects, nor do they reasonably expect that the Draft Regulation would cause any material adverse impact on the Company’s operation or its proposed Listing.

As of the Latest Practicable Date, we had not received any request for cybersecurity review or relevant inquiries from CAC in connection with its proposed Listing.

Other applicable PRC data security and cybersecurity laws and regulations

We, through one of our operating entities in Mainland China Shenzhen Futu, primarily provide two types of services in the PRC through *Futubull* platform, namely (i) providing users with market data and other Internet information services; and (ii) having the links embedded, which enable to redirect users to the brokerage services provided by another wholly-owned subsidiary of the Company, Futu International Hong Kong, which is a licensed corporation under the SFO. As part of the account opening process, clients' personal information relating to opening account for online trading activities is directly collected, processed, used and stored in the server(s) engaged by Futu International Hong Kong, and outside Mainland China. Shenzhen Futu does not approve any account opening procedure, nor process any securities transaction information. As of the date of this document such services are not in violation of the applicable data security and cybersecurity PRC laws and regulations in any material respect according to our PRC Legal Advisors.

Article 38 of the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》, the “PIPL”) applies to operators within Mainland China that provide personal information to any foreign entity. Based on the above and taking into consideration the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “Data Export Measures”), which were issued recently, and considering the uncertainties regarding how they would be interpreted and enforced which remain unclear, our PRC Legal Advisors have advised us that the direct collection of personal information of its PRC-based users and clients by Futu International Hong Kong outside Mainland China does not fall within the scope of “cross-border provision of personal information by operators within Mainland China to foreign entities” as expressly prescribed in Article 38 of the PIPL as of the date of this document, as (i) Futu International Hong Kong is not a “domestic personal information handler” regulated under Article 38 of the PIPL, (ii) there is no transfer (or “export”) of personal data of users and clients by Shenzhen Futu out of the PRC, and (iii) there is no cross-border provision of important data and personal information that was collected or produced in the course of operations within the territory of Mainland China, and therefore is not in violation of any applicable PRC laws in this regard. The Joint Sponsors' PRC legal advisor concurred with the aforementioned opinion of the Company's PRC Legal Advisors.

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The Data Export Measures require that any data processor which processes or exports personal information exceeding certain volume threshold under such measures shall apply for security assessment by the CAC before transferring any personal information abroad. The security assessment requirement also applies to any transfer of important data outside of China. Since the Personal Information Protection Law and the Data Export Measures are new, there are uncertainties as to the interpretation and application of it, especially in relation to its applicability and requirements for our offshore subsidiaries when they engage in personal information processing activities for natural persons within China, including the information collection activities conducted by our offshore subsidiaries outside the Mainland China. As of the date of this document, the exact scope and the calculation method of “important data” under the current regulatory regime remains unclear, and the PRC government authorities may have discretion in the interpretation and enforcement of the applicable laws. Therefore, it is uncertain whether we would be required to report any security assessment for cross-border data transfers to the CAC, and there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors. While we do not believe the pre-approval requirements for any cross-border data transfer will apply to the way Futu International Hong Kong currently collects information from persons within China, in the event we need to transfer certain data from our PRC entities to our offshore subsidiaries or if regulatory bodies deem our current data collection model as a cross-border data transfer, we will be subject to the relevant requirements. Furthermore, we may need to take certain additional measures in the future to be in compliance with the Personal Information Protection Law. Notwithstanding the foregoing uncertainties, if we are required to report security assessments for cross-border data transfers, to the reasonable knowledge of our PRC Legal Advisors, as of the Latest Practicable Date, they are of the view that they do not foresee any material legal impediments for us to comply with Data Export Measures in all material respects.

During the Track Record Period and up to the Latest Practicable Date, we had established comprehensive security system, *Futu Monolith Safety Protection System* (“FMSPPS”), which has been awarded the ISO27001 Information Management System Certification, to provide protection of information related to our users and clients, their accounts and transactions with the support of our network situational awareness and risk management system. We have a data security team of engineers and technicians dedicated to protecting the security of our data, and have established stringent internal protocols in this regard. For details of our data security measures, see “— Data Security and Privacy.”

Based on the legal due diligence conducted by our PRC Legal Advisors, our PRC Legal Advisors are of the view that the Group has adopted necessary measures with respect to the data security and cybersecurity according to the applicable PRC laws and regulations, and they are not aware of any material non-compliance by the Group of the data security, cybersecurity or personal information protection under the current PRC laws and regulations.

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During the Track Record Period and up to the Latest Practicable Date, (i) there had not been any material leakage of data or personal information by our Group; and (ii) we had not been involved in any material investigation, inquiry, penalty or other legal proceedings initiated by the applicable governmental or regulatory authorities in the PRC in relation to our compliance with the applicable data security and cybersecurity laws and regulations in the PRC. Further, as advised by our PRC Legal Advisors, they do not currently expect that the applicable PRC laws on data security and cybersecurity would have a material adverse impact on our business operations, financial results and financial position.

LEGAL PROCEEDINGS AND COMPLIANCE

Save as disclosed in this subsection, during the Track Record Period and up to the Latest Practicable Date, we had not been involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. Our Directors are of the view that, save as disclosed in “— Properties”, we had complied with all relevant laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Ongoing Regulatory Actions

We are subject to various regulatory requirements, including those specified in laws, regulations and guidelines issued by the competent regulatory authorities in Hong Kong, US, Singapore and Australia, including but not limited to the SFC, MAS, SEC, FINRA and the ASIC.

Futu International Hong Kong is a licensed corporation under the SFO and may be subject to SFC inquiries and investigations from time to time. As of the Latest Practicable Date, Futu International Hong Kong was involved in certain ongoing inquiries initiated by the SFC concerning matters including, among others, client onboarding processes, risk management, client assets, cybersecurity, anti-money laundering, counter-financing terrorism and operation of mobile application. In addition, Futu International Hong Kong was involved in an ongoing investigation concerning matters, including, among others, online account opening procedures and product due diligence. The SFC’s inquiries and investigation 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 document unless otherwise consented by the SFC.

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As the foregoing inquiries and investigation from the 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 investigation, if so, the nature and extent of any such action. If, after the SFC's inquiries and investigation have been concluded, the SFC identifies misconduct or material non-compliance, the 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 the markets we operate in, 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 investigation by relevant regulators."

Regulated Activities

Pursuant to Articles 118 and 120 of the Securities Law of the PRC, "securities business" includes securities brokerage business, securities investment, investment consulting business and other businesses approved by the securities regulatory authorities under the State Council. Shenzhen Futu, one of our operating entities in Mainland China, having the link embedded in *Futubull* platform to redirect users to the brokerage services provided by Futu International Hong Kong, the Company's wholly-owned subsidiary in Hong Kong and a licensed corporation under the SFO. As advised by our PRC Legal Advisors, as of the date of this document such services provided by Shenzhen Futu in Mainland China do not fall within the definition of "securities business" under the Securities Law.

During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any other administrative penalty or investigation by CSRC or other relevant authorities in the PRC concerning our regulatory compliance with the Securities Law of the PRC that could, individually or in the aggregate, have a material adverse effect on the Group's business operations, financial results and financial position.

As advised by our PRC Legal Advisors, Futu International Hong Kong is regarded as an "overseas securities business entity" under Article 95 of the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》). The operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not constitute the provision of securities business in Mainland China. Our Group's securities brokerage business is conducted outside Mainland China through its entities and employees licensed with the relevant regulators, such as the SFC in Hong Kong, and not through its operating subsidiaries in Mainland China. Therefore, our PRC legal advisors are of the view that, as of the date of this document, the operation of *Futubull* platform by Shenzhen Futu and the provision of securities services by Futu International Hong Kong do not violate

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the Securities Law, the Regulations on Supervision and Administration of Securities Firms and the Administrative Measures on Representative Offices of Foreign Securities Institutions Stationed in China (《外國證券類機構駐華代表機構管理辦法》).

However, our PRC Legal Advisors also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations over the applicable PRC laws and regulations, including but not limited to, Securities Law of the PRC and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》) and Administrative Measures on Representative Offices of Foreign Securities Institutions Stationed in China (《外國證券類機構駐華代表機構管理辦法》). Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors.

Currency Conversion

Pursuant to the applicable laws and regulations in the PRC (including but not limited to the PRC Foreign Exchange Administration Regulation (《中華人民共和國外匯管理條例》)), any institution, unit or individual may not engage in foreign exchange business without the approval of the PRC foreign exchange control authority or other financial regulatory authority. We are not licensed under applicable PRC laws and regulations to provide, and we do not provide, any currency conversion or remittance of funds out of Mainland China services to our PRC-based clients.

The PRC-based clients may only use their PRC bank accounts for identification purpose during the account opening processes through the e-certification procedure through a mutually recognized certification authority (“**E-Certification Procedure**”) as allowed by the SFC Circular on Acceptable Account Opening Approaches published in June 2019 (the “**2019 SFC Circular**”). Furthermore, the PRC-based clients cannot use their PRC bank accounts for their initial payments or ongoing fund movements via our platform. For fund transfer (such as when the PRC-based clients conduct trades on our platform), we do not allow the PRC-based clients to use their PRC bank accounts for fund transfer via our platform and our platform only accepts remittance of funds through either a Hong Kong bank account or an overseas bank account for either initial payments or ongoing fund movements. We require our clients to complete registration of their bank accounts for fund transfer purposes on our platform and we do not accept PRC bank accounts for such purposes. Our guidelines and policy are also clearly stated to users who would like to open a trading account on *Futubull*. As advised by our PRC Legal Advisors, the current applicable PRC laws and regulations also do not require our clients to submit or us to request and review evidence of approval or registration from relevant authorities with respect to the foreign currency used for investments. For details of our processes of account opening and fund transfer for our clients, see “— Our Services — Retail Services — Account Opening and Fund Transfer.”

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In addition, we conduct regular employee training sessions to emphasize the compliance with foreign exchange control regulations, including but not limited to the prohibition on facilitating any form of currency conversion. To ensure compliance with the applicable regulatory guidelines and the Group's internal policies, we have required our employees to comply with the relevant laws and regulations in respect of offshore investment transactions by PRC residents and prohibits employees from facilitating in any form currency conversion and remittance by PRC-based clients in violation of applicable laws and regulations. In addition, we have established anti-money laundering policies covering client identification, fund transfer and transaction execution in compliance with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong. We have also posted the PRC foreign exchange laws and regulations including the PRC Foreign Exchange Administration Regulation (《中華人民共和國外匯管理條例》) and the Implementation of the Administrative Measures for Personal Foreign Exchange (《個人外匯管理辦法實施細則》) on both our website and mobile app for our clients' information. We also maintain a regular compliance review over the communication between employees and clients, and will take disciplinary action against any non-compliance noted during the review. We will also conduct review and take similar measures when receiving report from employees on irregularity identified or suspected in this respect.

To strengthen our internal control, we have established and set up our internal control requirements, which may have stricter obligations or higher standards than the applicable laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had identified several incidents of staff's misconducts in relation to noncompliance with our internal requirements on fund transfer and remittance. Such misconducts mainly concerned the staff's inappropriate responses to clients' queries on fund transfers by sharing their knowledge of the procedures and requirements regarding the PRC banks' currency conversion and remittance policy, and such responses were not in strict compliance with our internal policies. These misconducts were identified by us during our regular compliance review over the communications between our employees and clients. As advised by our PRC Legal Advisors, such misconducts were not compliant with our internal policies and requirements, and none of them could be seen as a violation of currently applicable PRC laws and regulations by our Group. Our PRC Legal Advisors are of the view that such misconducts will not result in any penalty or enforcement actions against our Group by relevant regulatory authorities.

We have adopted an internal appraisal system where employees' work performance is ranked by scores. We would take disciplinary actions against the personnel violating our internal policies and deduct the relevant personnel's performance scores based on the seriousness of the misconduct and our internal appraisal policy.

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In addition, we have taken a comprehensive range of internal control measures to prevent and avoid any potential violations and misconducts, including:

- (i) discussing between the relevant staff and his/her team leader and/or department manager with respect to the details of the identified violations and/or misconducts and the consequences. Case studies would also be provided to other employees;
- (ii) providing regular compliance trainings to our employees to emphasize the compliance with foreign exchange control regulations, including but not limited to the prohibition on facilitating any form of currency conversion;
- (iii) actively conducting review on our staff's performance. Each customer service staff is required to sign a compliance undertaking, which highlights the key requirements on their service standards and acknowledgement to adhere to our internal policies and compliance manuals from time to time; and
- (iv) maintaining regular compliance review over the communications between our employees (such as the customer service staff) and our clients, including ad hoc review of the records on the online service platform and/or telephone recordings to monitor the staff's responses given to PRC-based clients.

Our Directors are of the view that the above-mentioned comprehensive range of internal control measures have been adequate and effective in preventing and avoiding potential violations and misconducts, as since May 2022 and up to the Latest Practicable Date, we had not identified any staff misconduct in relation to our internal requirements on account opening and fund transfer and remittance. During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any administrative penalty or investigation by SAFE or other relevant authorities in the PRC concerning our compliance with the relevant PRC laws and regulations on currency conversion or remittance of funds out of Mainland China that could, individually or in the aggregate, have a material adverse effect on the Group's business operations, financial results and financial position.

Cross-border Data Transfer

Certain of our operations may involve cross-border data transfer as our overseas operating subsidiaries Moomoo Financial Inc., Moomoo Financial Singapore and Futu Securities Australia have outsourced their customer services to PRC service providers. As of the Latest Practicable Date, such arrangements had not been restricted by the relevant regulatory authorities in the jurisdictions that such overseas operating subsidiaries operate in. See “— Regulatory Development — PRC Cybersecurity and Data Protection — Other Applicable PRC Data Security and Cybersecurity Laws and Regulations” for discussion of the direct collection of personal information of PRC-based users and clients by Futu International Hong Kong outside Mainland China.

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AWARDS AND RECOGNITIONS

Since our inception, we received recognition for the quality and popularity of our offerings and services. Some of the significant awards and recognition we have received are set forth below.

<u>Awarding entity</u>	<u>Award/Recognition</u>	<u>Award year</u>
Shenzhen Science and Technology Innovation Commission, Shenzhen Finance Bureau, Shenzhen Tax Service, State Taxation Administration	Certificate of High-tech Enterprise	2019, 2020
Torch High Technology Industry Development Center, Ministry of Science & Technology	Technologically advanced enterprise	2020
Hong Kong Stock Exchange	Top Breakthrough Exchange Participant – Leverage and Inverse (L&I) Product Turnover	2020
	Top 3 Active Exchange Participants in Stock Options	2020
Hurun Report	2020 China New Finance Top 100	2020
The Asset	The Asset Triple A Digital Awards 2019, Digital Brokerage of the Year	2019
	Triple A Digital Awards 2020, Best Digital Collaboration	2020
Hong Kong Stock Exchange	HKEX Awards 2021	2021

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 defined contribution plan for our PRC-based employees. We also offer additional life and medical insurance to our PRC-based employees through commercial providers. 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 (Chapter 571AI of the laws 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. In addition, our Singapore and U.S. subsidiaries provide health insurances to our Singapore and U.S.-based employees, respectively. We do not maintain business interruption insurance or key-man insurance, and we only maintain limited general property insurance. We believe that our insurance coverage is adequate to cover our key assets, facilities and liabilities.

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Moomoo Financial Singapore contributes to the Central Provident Fund (CPF), a compulsory comprehensive savings and pension plan for working Singaporeans and permanent residents. Besides CPF, we provide medical insurance and work-injury compensation insurance for all our Singapore-based employees. We also acquired public liability insurance that covers our Singapore offices.

If we incur any uninsured loss, 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. See “Risk Factors — Risks Related to Our Business and Industry — We have limited business insurance coverage.”

PROPERTIES

Our corporate headquarters are located at in Hong Kong, China. As of the Latest Practicable Date, we leased 28 properties in China, Hong Kong, the U.S., Singapore and Australia, with an aggregate gross floor area of approximately 36,000 square meters. Our leased properties are primarily used for corporate offices, data centers and other facilities. The relevant lease agreements have a term of one to five years. As of the Latest Practicable Date, we owned one property in California, the U.S. for corporate office purpose.

As of the Latest Practicable Date, eight of our lease agreements for our properties in the PRC had not been registered and filed with the competent PRC government authorities as required by applicable PRC laws and regulations, due to the relevant landlords not having completed the relevant property leasing and registrations. As advised by our PRC Legal Advisor, such non-compliance does not affect the validity of the relevant property lease agreement, and will not have a material adverse effect on the Listing, but could result in the imposition of fines up to RMB10,000 for each leased property that is unregistered if we fail to rectify the non-compliance within the time frame prescribed by the relevant authorities. Nonetheless, if we are required to relocate our leased office premises, such relocation will not be considerably burdensome and difficult, as we do not have any immovable equipment nor specific office space requirements. As such, we would only expect to incur minor relocation service costs, without having to incur a significant increase in rental rates given the abundance of office premises that would be suitable for our business operations.

CONTRACTUAL ARRANGEMENTS

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Negative List and the Catalog of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄》) (the “**Encouraging Catalog**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divide industries into three categories in terms of foreign investment, namely, “encouraged”, “restricted” and “prohibited.” Industries not listed under the Negative List and the Encouraging Catalog are generally deemed as falling into a fourth category “permitted.” The currently effective Negative List is the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**2021 Negative List**”), which became effective on January 1, 2022.

As advised by our PRC Legal Advisors, a summary of the business operations of Shenzhen Futu and Hainan Caixuetang that are subject to foreign investment restriction or prohibition in accordance with the 2021 Negative List and other applicable PRC laws and regulations is set out below (the “**Relevant Businesses**”):

<u>Categories</u>	<u>Relevant Businesses</u>
Value-added telecommunication services	<p>The business operation of Shenzhen Futu and Hainan Caixuetang through our websites and apps falls within the scope of commercial internet information services under the Telecommunications Regulations of the PRC, for which each of them is required to hold, and has obtained, a Value-added Telecommunication Business Operation License (《增值電信業務經營許可證》) (the “ICP License”) under the applicable PRC laws and regulations.</p> <p>According to the 2021 Negative List and other applicable PRC laws and regulations, provision of value-added telecommunication services business (including commercial internet content provision services) is a “restricted” business, and foreign investors are not allowed to hold more than 50% of the equity interest in enterprise conducting such business (excluding electronic commerce, domestic multi-party communication, storage-forwarding and call center).</p>

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<u>Categories</u>	<u>Relevant Businesses</u>
Radio and television program production	<p>Shenzhen Futu and Hainan Caixuetang create certain video contents, including but not limited to stock information and live broadcasts of corporate events, pursuant to the Provisions on the Administration of Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》), for which each of them is required to hold, and has obtained, a Radio and Television Program Production and Operation License (《廣播電視節目製作經營許可證》) under the applicable PRC laws and regulations.</p> <p>According to the 2021 Negative List and other applicable PRC laws and regulations, radio and television program production is a “prohibited” business, and foreign investors are prohibited from holding equity interest in any enterprise conducting such business.</p>
Internet culture activities . . .	<p>Shenzhen Futu and Hainan Caixuetang create certain video contents (requiring a Radio and Television Program Production and Operation License as discussed above) and publish such video contents on our websites and apps, which fall within the scope of “internet culture businesses” under the Interim Provisions for the Administration of Internet Culture (《互聯網文化管理暫行規定》). For publication of such video contents, each of them is required to hold, and has obtained, an Internet Culture Operation License (《網絡文化經營許可證》) under the applicable PRC laws and regulations.</p> <p>According to the 2021 Negative List and other applicable PRC laws and regulations, operation of internet culture activities (excluding music) is a “prohibited” business, and foreign investors are prohibited from holding equity interest in any enterprise conducting such business.</p>

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The Relevant Businesses

The revenue contribution of all of our Consolidated Affiliated Entities to our Group amounted to 0.2%, 0.3%, 0.3% and 0.4% of the total revenue of our Group for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, and the total assets of all of our Consolidated Affiliated Entities amounted to 0.1%, 0.1%, 0.1% and 0.1% of the total assets of our Group as at December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Shenzhen Futu, one of our Consolidated Affiliated Entities, is principally engaged in providing comprehensive services to our users and clients on our *Futubull* platform, which generally involves provision of market data and information and production and publication of video contents for investor education and corporate introduction. Hainan Caixuetang, one of our Consolidated Affiliated Entities, is also engaged in creation and provision of video contents on investment knowledge for our users and clients. The services provided by Shenzhen Futu and Hainan Caixuetang involve a mix of radio and video program production business, internet culture business and value-added telecommunication service business under the applicable PRC laws and regulations. Further, given that the video content produced by Shenzhen Futu and Hainan Caixuetang are launched and displayed on our *Futubull* platform, the radio and video program production business and internet culture business (which are considered “prohibited” where foreign investment is strictly forbidden) carried out by each of Shenzhen Futu and Hainan Caixuetang and the value-added telecommunication service business (which is considered “restricted”) operated by them collectively form our integrated content offering through *Futubull* platform, and are therefore inseparable from each other and cannot be artificially segregated and operated through different entities within the Group.

As advised by our PRC Legal Advisors, we cannot hold or acquire any equity interest in our Consolidated Affiliated Entities as, under the 2021 Negative List and other applicable PRC laws and regulations, foreign investors are:

- (a) prohibited from holding any equity interest in a PRC enterprise engaging in radio and television program production business and internet culture business (excluding music); and
- (b) restricted from holding more than 50% of the equity interest in a PRC enterprise providing commercial internet information services, which are categorized as “value-added telecommunication service business.” In addition, as confirmed by the Company, the relevant Consolidated Affiliated Entities provide commercial internet information and operate “prohibited” businesses (i.e. radio and television program production business and internet culture business) on the same platform. All these Relevant Businesses form an integral part of the Group’s business and are operated on the same platform, which cannot be separated apart from one another.

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Based on the above, we believe that to maintain the business operations and the effectiveness of licenses held by our Consolidated Affiliated Entities, they must be controlled by our Company through the Contractual Arrangements. Furthermore, since the businesses operated by our Consolidated Affiliated Entities fall within both the “prohibited” and “restricted” business categories under the 2021 Negative List, we are unable to set up alternative corporate structure that allows us to hold all such businesses according to the applicable PRC laws and regulations. Further, as Shenzhen Futu and Hainan Caixuetang operate the “prohibited” businesses simultaneously, in the event that Shenzhen Futu and Hainan Caixuetang become sino-foreign joint-ventures, both Shenzhen Futu and Hainan Caixuetang are unlikely to obtain and maintain an ICP License due to the lack of guidance on specific requirement or regulatory procedures for foreign investment in the value-added telecommunications business in the PRC in view of the removal of the Qualification Requirements (as defined below). Please see “— Recent Update on the FITE Regulations” and “— Legality of our Contractual Arrangements” for details. Accordingly, we are of the view that our Contractual Arrangements are narrowly tailored, as they are used to enable us to achieve our business and operation purposes under the current PRC regulatory framework so as to minimize the potential conflict with relevant PRC laws and regulations.

Recent Update on the FITE Regulations

Foreign investment in a company providing value-added telecommunication services, including Internet content provision services, is subject to the Provisions on the Administration of Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》), or the FITE Regulations, which were promulgated by the State Council on December 11, 2001, and subsequently amended on September 10, 2008, February 6, 2016 and recently on April 7, 2022 by the State Council’s Decision to Amend and Abolish Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》, the “**Order No. 752**”). Following the issue of Order No. 752, the qualification requirements (the “**Qualification Requirements**”) previously set out in the FITE Regulations, for which the main foreign investor must satisfy for investing in a PRC value-added telecommunication business was removed with effect from May 1, 2022. Nevertheless, under the amended FITE Regulations, whilst foreign investors are able to invest in entities holding an ICP License (holding up to 50% equity interest and not more), whether an entity held by foreign shareholders may hold a value-added telecommunication license is still subject to the examination of substance and merits by relevant authority.

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According to the interviews conducted by our PRC Legal Advisors and the Joint Sponsors' PRC legal advisor with the Communication Administration Bureaus (“**CAB**”) of Guangdong Province (廣東省通信管理局) and of Hainan Province (海南省通信管理局) in September 2021, each CAB confirmed that there are no detailed rules and standards for the Qualification Requirements and the MIIT will decide whether an applicant meets the Qualification Requirements on a case-by-case basis and there will be significant uncertainty for the relevant entities to obtain or maintain the license for operating value-added telecommunication services if such entities are held directly or indirectly by foreign shareholders that do not have any substantial operation or business. Further, both of the CAB officers confirmed that a foreign-invested enterprise will not be granted with an ICP License if it also engages in foreign prohibited businesses such as radio and television program production and operation in addition to value-added telecommunication businesses. Both of the CAB officers work in the respective division of the relevant CAB responsible for accepting application from and supervising daily operation of value-added telecommunication enterprises located within the respective jurisdiction of the relevant CAB, including annual report submission and change of shareholder. Our PRC Legal Advisors are of the view that each of the CAB officers who attended the consultation was a competent person to provide the aforementioned confirmation.

In addition, as advised by our PRC Legal Advisors, as of the Latest Practicable Date, (i) no applicable PRC laws, regulations or rules have provided further clear guidance on specific requirement or regulatory procedures had been published for foreign investment in the value-added telecommunications business in the PRC in view of the removal of the Qualification Requirements. As such, whether an entity held by foreign shareholders may hold a value-added telecommunication license is still subject to the examination of substance and merits by relevant authority; and (ii) the removal of the Qualification Requirements would not invalidate our ICP License or require us to adjust the Contractual Arrangements under applicable PRC laws.

We will continue to monitor the regulatory developments following the Listing to keep abreast of any regulatory developments, and will adjust the Contractual Arrangements to satisfy the “narrowly tailored” principle as soon as practicable after further guidance from the relevant PRC authorities is published with respect to the specific requirements under the then PRC laws and regulations and the regulatory procedures that we need to follow to complete such adjustment.

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OUR CONTRACTUAL ARRANGEMENTS

Overview

Our Consolidated Affiliated Entities are currently our VIEs and their respective subsidiaries, which were all established under the PRC laws. As described above, investment in certain areas of the industries in which Shenzhen Futu and Hainan Caixuetang currently operate are subject to restrictions under current PRC laws and regulations. After consultation with our PRC Legal Advisors, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

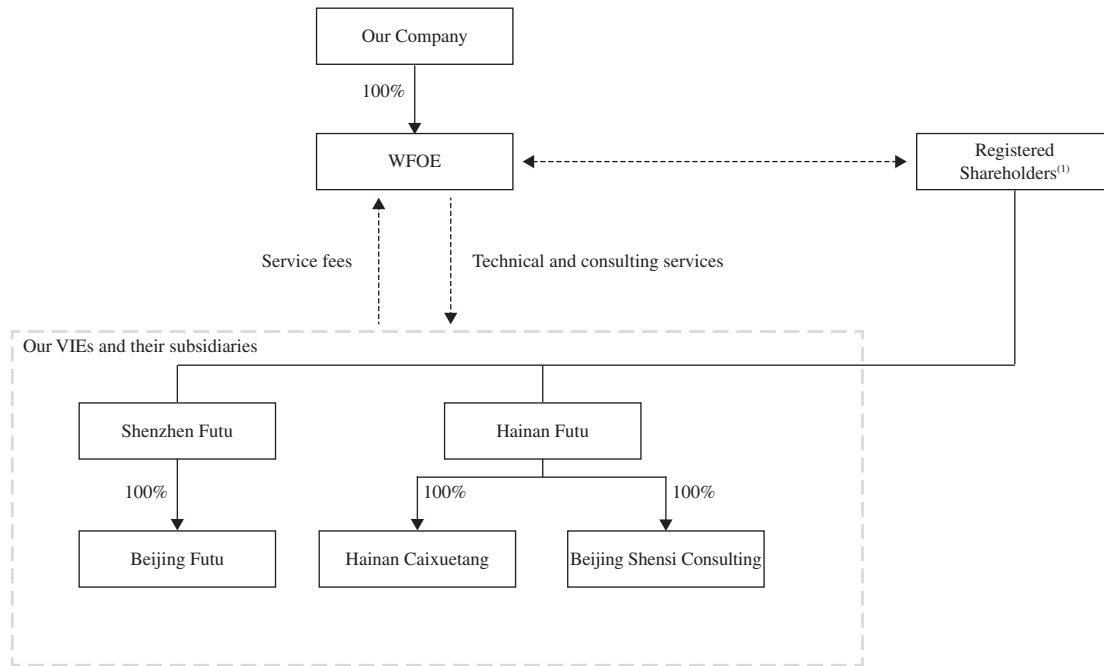
In order to comply with the relevant PRC laws and regulations described above, while maintaining effective control over all of our operations, our Company has control over our Consolidated Affiliated Entities by having entered into a series of contractual arrangements through the WFOE, our VIEs and their Registered Shareholders initially in October 2014 (which were amended and restated in May 2015 and September 2018) (the “**Original Contractual Arrangements**”). In connection with the Listing and in order to ensure that our Contractual Arrangements are, and will continue to remain, in compliance with the Stock Exchange’s requirements, we entered into the current set of Contractual Arrangements on September 30, 2021 and entered into the termination agreements among our VIEs, the WFOE and the Registered Shareholders on September 30, 2021 to terminate and replace the Original Contractual Arrangements. As a result, the WFOE has maintained effective control over the financial and operational policies of the Consolidated Affiliated Entities and have been entitled to all the economic benefits derived from their operations.

Certain of our Consolidated Affiliated Entities, namely Beijing Futu, Hainan Futu and Beijing Shensi Consulting, have not yet commenced substantive business operations and are not expected to have commenced any substantive business operations by the time of the Listing. Our Company has undertaken to the Stock Exchange that it will not conduct any businesses within their respective business segments that are not subject to foreign investment restrictions or prohibitions through these entities or, to the extent that it does, it will transfer such entities outside of the Contractual Arrangements prior to engaging in any substantive and unrestricted businesses.

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Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to WFOE and our Company under the Contractual Arrangements:



Notes:

- (1) Each of Shenzhen Futu and Hainan Futu is held as to 85% by Mr. Li and as to 15% by Ms. Lei Li (Mr. Li's spouse).
- (2) "——>" denotes direct legal and beneficial ownership in equity interest.
- (3) "----->" denotes contractual relationship.
- (4) "-----" denotes the control by the WFOE over our Consolidated Affiliated Entities through (i) the powers of attorney to exercise all shareholders' rights of the Registered Shareholders in our VIEs; (ii) exclusive options to acquire all or part of the equity interest in our VIEs; and (iii) equity pledges by the Registered Shareholders in favour of the WFOE over the equity interests in our VIEs.
- (5) As of the Latest Practicable Date, Shenzhen Futu held an ICP License, a Radio and Television Program Production and Operation License and an Internet Culture Operation License; and Hainan Caixuetang held an Internet Culture Operation License, a Radio and Television Program Production and Operation License, an ICP License and a publication operation license.
- (6) Beijing Futu, Hainan Futu and Beijing Shensi Consulting have not yet commenced substantive business operations and are not expected to have commenced any substantive business operations by the time of the Listing, and will only carry out businesses which are subject to foreign investment restrictions under the applicable PRC laws and regulations in the future.

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Circumstances under which we will unwind our Contractual Arrangements

If the Relevant Businesses are no longer prohibited or restricted under the applicable PRC laws and regulations and it is practical for us to apply for and maintain the applicable licenses for the Relevant Business, we will unwind and terminate the Contractual Arrangements as soon as practicable in respect of such Relevant Businesses. In that case, the WFOE will exercise the call option under the Exclusive Option Agreements (as defined below) to acquire the equity interest and/or assets of our VIEs and unwind the Contractual Arrangements, and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations.

Summary of the material terms of our Contractual Arrangements

A description of each of the specific agreements that comprise our Contractual Arrangements entered into by WFOE and each of our VIEs and the Registered Shareholders is set out below:

Exclusive Business Cooperation Agreements

Under the exclusive business cooperation agreements dated September 30, 2021 between our VIEs and the WFOE (the “**Exclusive Business Cooperation Agreements**”), in exchange for a service fee, payable monthly, our VIEs agreed to engage the WFOE as its exclusive provider of certain technical and consulting services, including but not limited to (i) licensing of the relevant software, trademarks and technologies for use by our VIEs, (ii) providing development, maintenance and update of relevant application software required by our VIEs’ business, (iii) providing design, installation, daily management and maintenance, and update of VIEs’ computers, network software, hardware equipment and databases, (iv) providing technical support and training to personnel of our VIEs, (v) providing technical consultation and research for our VIEs, and (vi) other relevant services required by our VIEs’ business needs and in consideration of WFOE’s capacity as agreed between the parties.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of our VIEs, after the deduction of any accumulated deficit of the VIEs in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOE may adjust the amount of the services fee in accordance with PRC tax law principles and tax practices and with reference to the operational needs of our VIEs, and our VIEs will accept such adjustment. The WFOE shall calculate the service fee on a monthly basis and issue a corresponding invoice to our VIEs. Our VIEs must make the payment to the WFOE within ten business days of receiving such invoice.

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In addition, without the prior written consent of the WFOE, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, our VIEs shall not accept the same or any similar services provided by any third party. In addition, without the prior consent of the WFOE, our VIEs shall not enter into any business cooperation with any third party, and the WFOE shall have the exclusive right of first refusal in respect of such business cooperation with our VIEs under the same terms.

The Exclusive Business Cooperation Agreements also provide that the WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by our VIEs during the performance of the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements shall remain effective unless otherwise terminated by the WFOE in writing or in accordance with the provisions of the Exclusive Business Cooperation Agreements. If, during the term of the Exclusive Business Cooperation Agreement, the operation period under the business license of either the WFOE or our VIEs expires and the renewal of which is declined or rejected by the relevant government authorities, the Exclusive Business Cooperation Agreements shall be terminated at the expiry of such operation period.

Exclusive Option Agreements

As part of the Contractual Arrangements, each of the Registered Shareholders respectively entered into an exclusive option agreement (the “**Exclusive Option Agreements**”) on September 30, 2021 with our VIEs and the WFOE, each of which contains similar terms and conditions. Pursuant to the Exclusive Option Agreements, the WFOE has the exclusive and irrevocable right to require the Registered Shareholders to transfer any or all their equity interests in our VIEs to the WFOE and/or any third party/parties designated by it, in whole or in part at any time and from time to time, at the lower of the amount of the Registered Shareholders’ respective paid-in capital in our VIEs and the lowest price permitted under applicable PRC laws at the time.

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Each of our VIEs and the respective Registered Shareholders of our VIEs, among other things, has covenanted that:

- (i) without the prior written consent of the WFOE, they shall not in any manner supplement, change or amend the constitutional documents of our VIEs, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- (ii) they shall maintain our VIEs' corporate existence in accordance with good financial and business standards and practices, and prudently and effectively operate their business and handle their affairs, and shall obtain the prior written consent of the WFOE for the annual budget and final accounts of our VIEs;
- (iii) without the prior written consent of the WFOE, they shall not at any time from the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any equity interest of our VIEs and their subsidiaries, or allow the encumbrance thereon of any security interest;
- (iv) without the prior written consent of the WFOE, they shall not at any time from the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material asset, business or revenue of our VIEs and their subsidiaries or the legal or beneficial interest therein, or allow the encumbrance thereon of any security interest;
- (v) without the prior written consent of the WFOE, our VIEs shall not incur, inherit, guarantee or assume any debt, except for (i) debts incurred in the ordinary course of business other than payables incurred by way of a loan, and (ii) intra-group debts between our VIEs and their respective subsidiaries;
- (vi) our VIEs shall always operate all of their and their respective subsidiaries' businesses during the ordinary course of business to maintain their asset value and refrain from any action or omission that may adversely affect our VIEs' and their respective subsidiaries operating status and asset value;
- (vii) without the prior written consent of the WFOE, our VIEs and their respective subsidiaries shall not execute any material contracts, except the contracts executed in the ordinary course of business;
- (viii) without the prior written consent of the WFOE, our VIEs and their respective subsidiaries shall not provide any person with any loan or credit, except for the provision of loan or credit by our VIEs to their respective wholly-owned subsidiaries;
- (ix) they shall provide the WFOE with information on the business operations and financial conditions of our VIEs and their respective subsidiaries at the request of WFOE;

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- (x) if so requested by the WFOE, they shall procure and maintain insurance in respect of the assets and businesses of our VIEs and their respective subsidiaries from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses or hold similar properties or assets in the same region;
- (xi) without the prior written consent of the WFOE, our VIEs and their respective subsidiaries shall not merge, consolidate with, acquire or invest in any person;
- (xii) they shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the assets, businesses or revenues of our VIEs and their respective subsidiaries;
- (xiii) for the purpose of maintaining the ownership by our VIEs and their respective subsidiaries of all of their assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions, file all necessary or appropriate complaints, or raise necessary or appropriate defences against all claims;
- (xiv) without the prior written consent of the WFOE, our VIEs shall not in any manner distribute dividends, provided that upon the request of the WFOE, our VIEs shall immediately distribute all distributable profits to their shareholders;
- (xv) at the request of WFOE, they shall appoint any persons designated or approved by WFOE as the directors, supervisors (if applicable) and senior management of our VIEs and their respective subsidiaries, and/or remove the office of any director, supervisor or senior management of our VIEs and their respective subsidiaries, and they shall pass all relevant resolution and make all relevant filings;
- (xvi) without the prior written consent of the WFOE, our VIEs and their respective subsidiaries shall not engage in any business that competes with that of the WFOE or its affiliates; and
- (xvii) without the prior written consent of the WFOE, our VIEs and their respective subsidiaries shall not be liquidated or dissolved unless otherwise required by the PRC laws.

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In addition, each of the Registered Shareholders of our VIEs, among other things, has covenanted that:

- (i) without the written consent of the WFOE, they shall not at any time from the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in our VIEs, or allow the encumbrance thereon of any security interest, except for encumbrances under the Equity Pledge Agreements (as defined below) and the Power of Attorney (as defined below);
- (ii) they shall procure our VIEs' shareholders' meeting and/or the board of directors not to approve, without the written consent of WFOE, at any time from the signing of the Exclusive Option Agreements any sale, transfer, pledge or disposal of in any other manner the relevant Registered Shareholder's legal or beneficial interest in our VIEs, or allow the encumbrance thereon of any security interest, except for the approval of the Registered Shareholder's encumbrances under the Equity Pledge Agreements (as defined below) and the Power of Attorney (as defined below);
- (iii) they shall procure our VIEs' shareholders' meeting and/or the board of directors not to approve, without the written consent of the WFOE, our VIEs to merge, consolidate with, acquire or invest in any person;
- (iv) they shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to their equity interest in our VIEs;
- (v) they shall procure our VIEs' shareholders' meeting and/or the board of directors to vote in favour or any transfer of equity interest pursuant to the Exclusive Option Agreements and take any other action at the request of the WFOE;
- (vi) for the purpose of maintaining the ownership of equity interest in our VIEs, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions, file all necessary or appropriate complaints, or raise necessary or appropriate defences against all claims;
- (vii) at the request of WFOE, they shall appoint any persons designated or approved by WFOE as the directors, supervisors (if applicable) and senior management of our VIEs and their respective subsidiaries;

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- (viii) they shall waive the pre-emptive right (if any) he/she/it is entitled to with respect to the transfer of equity interest to the WFOE or any party/parties designated by the WFOE by other existing shareholder(s) of our VIEs, agree the other existing shareholder(s) of our VIEs may enter into the Exclusive Option Agreements, the Equity Pledge Agreements (as defined below) and the Power of Attorney (as defined below) with the WFOE or the party/parties designated by the WFOE and our VIEs, and undertake not to take any action that conflicts with such other documents entered into by the other existing shareholder(s);
- (ix) each of them will immediately gift any profits, dividends, distributions or liquidation proceeds received from our VIEs to the WFOE or a person designated by the WFOE to the extent permitted by the PRC laws; and
- (x) each of them will strictly abide by the provisions of the Exclusive Option Agreements and any other agreement(s) collectively or separately entered into among the Registered Shareholders, our VIEs and the WFOE, perform the obligations under these agreements in a practical manner, and refrain from any action or omission which would affect the validity of such agreements. If any the Registered Shareholders has any right under the Exclusive Option Agreements, the Equity Pledge Agreements (as defined below), unless with the written instruction of the WFOE, the Registered Shareholders shall not exercise such rights.

The Exclusive Option Agreements shall remain effective unless otherwise terminated in the event that the entire equity interest in our VIEs held by the Registered Shareholders or their respective successors or transferees have been transferred to the WFOE or its appointee(s) or in accordance with the provisions of the Exclusive Option Agreements.

Equity Pledge Agreements

As part of the Contractual Arrangements, each of the Registered Shareholders respectively entered into the equity pledge agreements (the “**Equity Pledge Agreements**”) on September 30, 2021 with our VIEs and the WFOE, each of which contains similar terms and conditions. Pursuant to the Equity Pledge Agreements, the Registered Shareholders have agreed to pledge all their respective equity interests in our VIEs that they own, including any dividend or distribution derived from the shares, to WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledges under the Equity Pledge Agreements have been effective upon completion of registration with the relevant administration for market regulation under the Original Contractual Arrangements and shall remain valid until after all the contractual obligations of the Registered Shareholders of our VIEs and our VIEs under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders of our VIEs and our VIEs under the relevant Contractual Arrangements have been paid.

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Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOE shall have the right to exercise all such rights as a secured party under the Equity Pledge Agreements and any applicable PRC law, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders of our VIEs.

As of the Latest Practicable Date, the registrations of the Equity Pledge Agreements in relation to our VIEs had been completed.

Powers of Attorney

The Registered Shareholders have executed the powers of attorney dated September 30, 2021 (the “**Powers of Attorney**”). Under the Powers of Attorney, the Registered Shareholders irrevocably appointed the WFOE and its designated person(s) (including but not limited to the Directors of our Company and their successors and the liquidators replacing such Directors or successors, but excluding those non-independent or who may give rise to conflict of interests) as their exclusive attorneys-in-fact to exercise on their behalf, any and all rights that they have in respect of their equity interests in our VIEs, including without limitation:

- (i) to convene and attend shareholders’ meetings of our VIEs and execute the relevant resolutions and meeting minutes;
- (ii) to file documents with the relevant companies registry;
- (iii) to exercise the voting rights and any power they are entitled to as shareholders of our VIEs under the applicable laws and the articles of association of our VIEs, including but not limited to the sale, transfer, pledge or disposal of all or part of his/her equity interest; and
- (iv) to nominate and appoint the legal representatives, directors, supervisors, general manager and other members of senior management of our VIEs.

Further, the Powers of Attorney are irrevocable and shall remain effective for so long as each Registered Shareholder holds equity interests in our VIEs.

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Confirmations from the Registered Shareholders

Each of the Registered Shareholders has confirmed to the effect that (i) his/her equity interests (together with any other interests therein) do not fall within the scope of communal properties, and his/her spouse does not have the right to claim such interests in the respective VIEs; (ii) his/her spouse does not exert influence, whether directly or indirectly, on the day-to-day management and voting matters of the respective VIEs; (iii) in the event of divorce with his/her spouse, the Registered Shareholder will take all actions that the WFOE deems necessary to ensure the performance of the Contractual Arrangements; and (iv) in the event of his/her death, disappearance, incapacity, divorce or marriage or any other event that causes his/her inability to exercise his/her rights as a shareholder of the respective VIEs, his/her successors (including his/her spouse) will not take any actions that would affect his/her obligations under the Contractual Arrangements.

Spouse undertakings

The spouse of each of the relevant Registered Shareholders, where applicable, has signed undertakings to the effect that, among other things, (i) he/she has no right to or control over the equity interests in our VIEs (together with any other interests therein) presently or in the future held by the respective Registered Shareholder and will not have any claim on such interests; (ii) the Registered Shareholder's equity interests in our VIEs (together with any other interests therein) do not fall within the scope of communal properties; (iii) he/she has not participated, and does to plan to participate in, the day-to-day management and voting matters of the respective VIEs; (iv) he/she confirms that the respective Registered Shareholder may further amend or terminate the Contractual Arrangements without the need for authorization or consent by him/her; and (v) if he/she is being transferred any shares held by their spouse for any reason, he/she will be bound by the Contractual Arrangements and will observe obligations as a shareholder of our VIEs, and will sign all necessary documents and to take all necessary actions to ensure the Contractual Arrangements are properly preformed.

Other key terms under our Contractual Arrangements

Dispute Resolution

Each of the agreements under our Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to our Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration, in accordance with the then effective arbitration rules. The arbitral tribunal shall consist of three arbitrators appointed in accordance with the arbitration rules, with the claimant and respondent each appointing one arbitrator and the third arbitrator being agreed and appointed by the first two arbitrators or by CIETAC. The seat of arbitration shall be in Beijing, and the arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that to the extent permitted by PRC law, the arbitral tribunal may award remedies over the shares or assets of our VIEs and its subsidiaries or injunctive relief (for

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example, limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our VIEs. The WFOE may apply to the courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the places where the principal assets of the WFOE or our VIEs are located for interim remedies or injunctive relief in support of arbitration proceedings. During the arbitration, except for the disputed areas which are subject to arbitration, the parties shall continue to perform their other obligations under the Contractual Arrangements.

In connection with the dispute resolution method as set out in our Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisors that: (a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity interest in our Consolidated Affiliated Entities in case of disputes. As such, these remedies may not be available to our Group under PRC laws; (b) further, under the PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief or winding-up of each of our Consolidated Affiliated Entities as interim remedies, before there is any final outcome of arbitration; (c) however, the PRC laws do not disallow the arbitral body to give award of transfer of assets of or an equity interest in each of our VIEs at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures; (d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over each of our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected; and (e) even if the aforementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that our VIEs or their respective Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Related to our Corporate Structure” for further details.

Loss sharing

Under the relevant PRC laws and regulations, none of our Company and the WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our

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Consolidated Affiliated Entities, which hold the requisite the PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of WFOE, our VIEs shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any material asset, business or revenue of our VIEs and their subsidiaries or the legal or beneficial interest therein, or allow the encumbrance thereon of any security interest; (ii) incur, inherit, guarantee or assume any debt, except for (a) debts incurred in the ordinary course of business other than payables incurred by way of a loan, and (b) intra-group debts between our VIEs and their respective subsidiaries; (iii) execute any material contracts, except the contracts executed in the ordinary course of business; (iv) provide any person with any loan or credit, except for the provision of loan or credit by our VIEs to their respective wholly-owned subsidiaries; and (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from our VIEs can be limited to a certain extent.

Conflict of interests

Each of the Registered Shareholders of our VIEs has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “— Powers of Attorney” above.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws upon the request of the WFOE, the Registered Shareholders of our VIEs shall transfer the proceeds they received from liquidation to the account designated by the WFOE under the management of the WFOE, or give such proceeds as a gift to the WFOE or the party/parties designated by the WFOE to the extent permitted by the PRC laws.

Insurance

There are certain risks involved in our operations, in particular, those relating to our corporate structure and Contractual Arrangements. See “Risk Factors — Risks Related to Our Business and Industry” and “Risk Factors — Risks Related to Our Corporate Structure” for further details. We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company had not purchased any insurance to cover the risks relating to our Contractual Arrangements.

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Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF OUR CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisors are of the opinion that our Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations to the maximum extent and that:

- (i) each of the WFOE and our VIEs is a duly incorporated and validly existing company and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) as confirmed by the parties to each of the agreements under the Contractual Arrangements, each of them has obtained all necessary approvals and authorizations to execute the agreements and perform their respective obligations thereunder. Each of such agreements is binding on the parties thereto and none of them is void or may become invalid pursuant to the Civil Code of the PRC (《中華人民共和國民法典》);
- (iii) none of the agreement under the Contractual Arrangements violates any provisions of the respective articles of association of our VIEs or the WFOE;
- (iv) no approvals or authorizations from the PRC governmental authorities are required for the execution and performance of our Contractual Arrangements, except that:
 - a. the exercise of the option by the WFOE or its designee of its rights under the Exclusive Option Agreements to acquire all or part of the equity interests in our VIEs is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - b. the equity pledges contemplated under the Equity Pledge Agreements are subject to the registration with the relevant state or local administration bureau for market regulation;
 - c. the arbitration awards/interim remedies provided under the dispute resolution provision of our Contractual Arrangements shall be recognized by the PRC courts before compulsory enforcement; and

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- (v) each of the agreements under our Contractual Arrangements is valid, legal and binding under the PRC laws, except that our Contractual Arrangements provide that the arbitral body may award interim remedies over the shares and/or assets of our VIEs, injunctive relief (such as for the conduct of business or to compel the transfer of assets) and/or order the winding up of our VIEs, and that courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our VIEs) also have jurisdiction for the grant and/or enforcement of arbitral award and interim remedies against the shares and/or assets of our VIEs, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our VIEs in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

However, our PRC Legal Advisors also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations over the validity of our Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion. See “Risk Factors — Risks Related to Our Corporate Structure.”

During the interviews with the Culture, Radio, Television, Tourism and Sports Bureaus (“**CRTTSB**”) of Nanshan District, Shenzhen (深圳市南山區文化廣播電視旅遊體育局) and of Haikou (海口市旅遊和文化廣電體育局) conducted by our PRC Legal Advisors and the Joint Sponsors’ PRC legal advisor on September 3, 2021 and September 16, 2021, respectively, the officers of the CRTTSB, who work in the division of their respective CRTTSB responsible for the law enforcement of Internet cultural market, radio and television production and operation activities and Internet audio-visual programs, confirmed that foreign investors are prohibited from engaging in the radio and television program production and internet culture activities conducted by Shenzhen Futu and Hainan Caixuetang. In addition, during the interviews with the CAB conducted by our PRC Legal Advisors and the Joint Sponsors’ PRC legal advisor on September 27 and September 28, 2021, respectively, the officers of the CAB respectively confirmed that as Shenzhen Futu and Hainan Caixuetang operates the “prohibited” businesses, i.e., the radio and television program production and operation of internet culture activities (excluding music), and the “restricted” businesses simultaneously on the same *Futubull* Platform, they are unlikely to obtain and maintain an ICP License.

Notwithstanding the foregoing, during the interviews with CRTTSB and CAB conducted by our PRC Legal Advisors and the Joint Sponsors’ PRC legal advisor on September 9, September 16, September 27 and September 28, 2021, the officers of CRTTSB and CAB confirmed that our Contractual Arrangements would not be challenged by them or subject to penalty imposed by them due to violation of any relevant PRC laws or regulations.

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Our PRC Legal Advisors are of the view that (a) the CRTTSB and CAB are the competent regulatory authorities for business activities of Shenzhen Futu and Hainan Caixuetang and taking into account the positions held by the interviewees with CRTTSB and CAB and their respective responsibilities, the officers interviewed have competent authorities to give the confirmations above; (b) based on these interviews, our adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations; and (c) our adoption of the Contractual Arrangements does not contravene any current applicable PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisors, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed “Risk Factors — Risks Related to Our Corporate Structure — If the PRC government deems that the contractual arrangements in relation to our Consolidated Affiliated Entities 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.”

ACCOUNTING ASPECTS OF OUR CONTRACTUAL ARRANGEMENTS

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOE, each of our Consolidated Affiliated Entities will pay services fees to the WFOE. The services fees, subject to the WFOE’s adjustment, are equal to the entire total consolidated net income of our Consolidated Affiliated Entities. The WFOE may adjust the service fee amount at its sole discretion according to the services provided by our Consolidated Affiliated Entities. Accordingly, the WFOE has the ability, at their sole discretion, to extract all of the economic benefit of our Consolidated Affiliated Entities through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as the WFOE’s prior written consent is required before any distribution can be made.

As a result of these Contractual Arrangements, our Company exercises control over the operations of our Consolidated Affiliated Entities and receives substantially all of their economic benefits and residual returns. Accordingly, our Consolidated Affiliated Entities are accounted as subsidiary of our Company and their results of operations, assets and liabilities and cash flows are consolidated into our Group’s financial statements. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 2 to the Accountant’s Report in Appendix IA to this document.

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OUR DIRECTORS' VIEW

Based on the above, our Directors are of the view that our Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct business in industries that are subject to foreign investment restrictions in the PRC and minimize the potential for conflict with relevant PRC laws and regulations to the maximum extent. Our Directors further believe that our Contractual Arrangements are fair and reasonable, taking into account (i) our Contractual Arrangements are negotiated on arm's length basis and entered into between WFOE, our Consolidated Affiliated Entities and the respective Registered Shareholders; (ii) by entering into the Exclusive Business Cooperation Agreements with WFOE, which is a PRC subsidiary of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing; and (iii) a number of other companies use similar contractual arrangements to achieve the same purpose.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law (《外商投資法》) which became effective on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Ventures Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprises Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC. It is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate interests and right of foreign investors. According to the Foreign Investment Law, China adopts a system of national treatment together with the 2021 Negative List with respect to foreign investment administration, and the 2021 Negative List will be issued by, amended or released upon approval by the State Council, from time to time. The 2021 Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investment must satisfy certain conditions stipulated in the 2021 Negative List for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the 2021 Negative List shall be treated equally. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》) (the "**Implementation Regulations**"), which came into effect on January 1, 2020. As advised by our PRC Legal Advisors, the Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment, and the Implementation Regulations are also silent on whether foreign investment includes contractual arrangements.

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Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOE, through which we operate our business in the PRC. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as a form of foreign investment under the Foreign Investment Law and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “— Legality of Our Contractual Arrangements” above.

Filings and Approvals from PRC Governmental Authorities

On December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (the “**Draft Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (the “**Draft Filing Measures**”), both of which had a comment period that expired on January 23, 2022. The Draft Administrative Provisions and the Draft Filing Measures regulate the system, filing management and other related rules with respect to direct or indirect overseas issuance of listed and traded securities by “domestic enterprises.” Furthermore, pursuant the 2021 Negative List, PRC domestic enterprises engaged in foreign investment prohibited business and intend to offer and list securities in an overseas exchange market shall obtain approval from relevant government authorities. At the press conference held on January 18, 2022, officials from the NDRC clarified that the aforementioned requirement only applies to direct overseas offering and listing by a PRC domestic enterprise, and as for the requirements for indirect overseas offering and listing by a PRC domestic enterprise, it will be subject to the abovementioned Draft Administration Provisions and the Draft Filing Measures promulgated by the CSRC.

In addition, according to the “Reply to the Reporters” Question by the CSRC Responsible Officers” (證監會有關負責人答記者問) dated December 24, 2021, the CSRC clarified that it adheres to the principle of non-retroactivity of the law, and the CSRC would start with the incremental enterprises (增量企業), i.e., impose filing procedures on incremental enterprises as well as stock enterprises (存量企業) with refinancing requests, while filing by other stock enterprises (其他存量企業) will be arranged separately so as to give them a sufficient transitional period. However, the CSRC Responsible Officers did not provide a clear definition of these terms. Therefore, whether our Company, for the purpose of this Listing, is an “incremental enterprise (增量企業)” or a “stock enterprise (存量企業)” is subject to further explanation by the CSRC. If we are categorized as a “stock enterprise (存量企業)”, we may still face more stringent regulatory requirements as compared to its current status.

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However, the Draft Administration Provisions and Draft Filing Measures will allow a proper transition period for existing overseas-listed China-based companies that do not have an imminent plan for public offerings to comply with the filing requirement in due course. Further, the officials from the CSRC have confirmed that companies with VIE structure that comply with the applicable PRC laws and regulations can still conduct overseas offering and listing upon the completion of the requisite procedures. Our PRC Legal Advisors advise that the Draft Administration Provisions and the Draft Filing Measures allow PRC domestic companies with a VIE structure which comply with applicable PRC laws and regulations to conduct overseas offerings and listings. As such, our Directors, as advised by our PRC Legal Advisors, are of the view that, as of the Latest Practicable Date, a listing adopting VIE structure through contractual arrangement, such as ours, does not fall within the scope of Article 6 of the 2021 Negative List. Therefore, we do not foresee that the Draft Administration Provisions and the Draft Filing Measures (if they become effective in their current forms) would have a material adverse impact on our VIE structure or our business operations.

As advised by our PRC Legal Advisors, as of the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by either the CSRC or other relevant industry authorities in effect that would explicitly require the Company to comply with any approval, verification or filing procedures for overseas securities offering and listing. To our best knowledge information and belief, we and our PRC Legal Advisors are not aware of the existence of any circumstances that would prohibit us from conducting the Listing under the Draft Administration Provisions and the Draft Filing Measures. Nevertheless, uncertainties of the filing procedures may be further clarified in the final version of the Draft Administration Provisions and the Draft Filing Measures and/or their implementation rules, any failure to comply with the regulations relating to overseas listing may subject us to fines, penalties or other sanctions which may have certain adverse effects on our business and financial conditions. But if the Draft Administration Provisions and the Draft Filing Measures become effective in their current form before or after the Listing is completed, we do not foresee any impediment for us to comply with the Draft Administration Provisions and the Draft Filing Measures in any material respect.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors — Risks Related to Our Corporate Structure.”

CONTRACTUAL ARRANGEMENTS

COMPLIANCE WITH OUR CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and compliance with our Contractual Arrangements:

- (i) major issues arising from the implementation and compliance with our Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (ii) our Board will review the overall performance of and compliance with our Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance of and compliance with our Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of our Contractual Arrangements, review the legal compliance of the WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from our Contractual Arrangements.

CONNECTED TRANSACTIONS

Following the Listing, the following transactions between members of our Group and our connected persons will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets forth the connected persons of our Company involved in the non-exempt continuing connected transactions upon the Listing and the nature of their connection with our Company.

Name	Connected relationship
Mr. Leaf Hua Li	Mr. Li is the founder, chairman of the Board, executive Director and chief executive officer of our Company. Therefore, Mr. Li and his associates are connected persons of our Company.
Tencent	Tencent is a substantial shareholder of our Company. Therefore, Tencent and its associates are connected persons of our Company. Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) (“ Tencent Computer ”) is a subsidiary of Tencent and a connected person of our Company.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

We have entered into the following transactions with the above-mentioned connected persons that will constitute continuing connected transactions under Rule 14A.31 of the Listing Rules upon the Listing:

No.	Transactions	Applicable Listing Rules	Waivers	Proposed Annual Caps for the Year ending December 31,		
				2022	2023	2024
<i>(HK\$'000)</i>						
<i>Fully-exempt continuing connected transactions</i>						
1.	Provision of brokerage services by our Group to certain Directors, connected persons and their respective associates	14A.34, 14A.52, 14A.53, 14A.76 and 14A.105	N/A	N/A	N/A	N/A
2.	Provision of ESOP Services by our Group to Tencent Group	14A.34, 14A.52, 14A.53, 14A.76 and 14A.105	N/A	N/A	N/A	N/A
3.	Provision of SMS Services by Tencent Group to our Group	14A.34, 14A.52, 14A.53, 14A.76 and 14A.105	N/A	N/A	N/A	N/A

CONNECTED TRANSACTIONS

No.	Transactions	Applicable Listing Rules	Waivers	Proposed Annual Caps for the Year ending December 31,		
				2022	2023	2024
<i>(HK\$'000)</i>						
<i>Non-exempt continuing connected transactions</i>						
1.	Provision of Cloud Services and Related Services and Equipment by Tencent Group to our Group	14A.34, 14A.35, 14A.36, 14A.49, 14A.71, 14A.76 and 14A.105	Requirements as to announcement, circular, independent Shareholders' approval	197,475	241,179	313,533
2.	Contractual Arrangements	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59, 14A.71 and 14A.105	Requirements as to announcement, circular, independent Shareholders' approval, annual caps, and fixed term of not more than three years	N/A	N/A	N/A

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions of our Company, which are fully exempt from all of the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Provision of Brokerage Services by our Group to certain Directors, Connected Persons and their respective Associates

We provide brokerage services to some of our Directors (including Mr. Li, Mr. Nineway Jie Zhang and Mr. Shan Lu), our former directors of our Company, directors of the members of our Group and their respective associates (who are our connected persons) in our ordinary course of business. The terms and conditions of the brokerage services (including but not limited to the commission and fee charged by us) which we offered to such connected persons are on normal commercial terms comparable to those offered to independent clients. It is expected that we will continue to provide such services to such connected persons after Listing, which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

As all of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of these transactions are expected to be less than 0.1% on annual basis, the brokerage services to our Directors, our former directors of our Company, directors of the members of our Group and their respective associates will be exempted from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Provision of ESOP Services by our Group to certain Members of Tencent Group

We provide ESOP management services to certain members of Tencent Group in our ordinary course of business and will continue to do so after Listing. In provision of such ESOP management services to certain members of Tencent Group, we will execute and administer certain employee stock incentive plans (including but not limited to all workflow and administration surrounding ESOP fulfilment, including employee communications and records management) of certain members of the Tencent Group (the “**ESOP Services**”). The terms and conditions of the ESOP Services (including but not limited to the commission and fee charged by us) which we offered to such connected persons are on normal commercial terms comparable to those offered to independent corporate clients. Separate underlying agreements will be entered into between the relevant parties, which will set out the precise scope of services, basis of service fees, payment terms and other details of the services to be provided by us pursuant to the terms of each of the ESOP Services. It is expected that we will continue to provide the ESOP Services to such connected persons after Listing, which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of these transactions contemplated under the ESOP Services are expected to be less than 0.1% on annual basis, the ESOP Services to certain members of Tencent Group will be exempted from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Provision of SMS Services by Tencent Group to our Group

We engage the Tencent Group to provide us with short messaging service (SMS) to us for reaching our users and clients in our ordinary course of business (the “**SMS Services**”). In return, we will pay service fees calculated based on the prescribed fee rate and the type and number of SMS text message. The terms and conditions (including but not limited to the fees charged by the Tencent Group) are on normal commercial terms, and are comparable to those that it offers to other independent third parties and to those offered by other third party SMS service providers. Separate underlying agreements will be entered into between the relevant parties, which will set out the precise scope of services, basis of service fees, payment terms and other details of the services to be provided by the Tencent Group in respect of the SMS Services. It is expected that we will continue to procure the SMS Services from the Tencent Group after Listing, which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

As all of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of these transactions contemplated under the SMS Services are expected to be less than 0.1% on annual basis, the SMS Services provided by the Tencent Group to our Group will be exempted from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions of our Company, which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Provision of Cloud Services and Related Services and Equipment by Tencent Group to our Group

(a) Parties

Our Company; and

Tencent Computer

(b) Principal Terms

On December 21, 2022, our Company (for itself and on behalf of other members of our Group) entered into a cloud services and related services and equipment framework agreement (the “**Cloud Services Framework Agreement**”) with Tencent Computer (for itself and on behalf of Tencent and its associates, the “**Represented Tencent Group**”), pursuant to which the Represented Tencent Group will provide cloud services and related services and equipment (including but not limited to, cloud servers, cloud database, cloud security, risk monitoring and management, cloud assessment, computing and network, domain name resolution service, and other related hardware and software services) to us. In return, we will pay service fees and/or equipment fees to the Represented Tencent Group.

Separate underlying agreements will be entered into between the relevant parties, which will set out the precise scope of services, type and quantity of equipment, basis of service fees and/or equipment fees, payment terms and other details of the services to be provided by the Represented Tencent Group pursuant to the terms of the Cloud Services Framework Agreement.

The initial term of the Cloud Services Framework Agreement will commence on the Listing Date and end on December 31, 2024, subject to the renewal upon the mutual agreement of both parties and in compliance with the Listing Rules.

CONNECTED TRANSACTIONS

(c) Reasons for the Transactions

As the Represented Tencent Group is a leading integrated service provider for a wide range of cloud services and technical services in China and is able to provide quality, reliable and cost-efficient services. Part of our servers are operated by cloud-based technology and certain data are retained on cloud database. Leveraging on cloud services, we can effectively and flexibly manage the number of our physical servers on as-needed basis. Considering our business has undergone, and is expected to undergo, rapid growth, it is expected that obtaining such services from an integrated service provider is a cost-effective alternative to support our technology infrastructure.

(d) Pricing Policies

Before entering to any separate underlying agreement in respect of the cloud services and related services and equipment to be provided by the Represented Tencent Group, we will assess our business need and compare the terms and conditions and scope of services proposed by the Represented Tencent Group with those offered by comparable service providers who are independent third parties, and we will consider various factors, including but not limited to, (i) the service fee and equipment fee rates offered by different service providers; (ii) the quality, stability and reliability of cloud and related services of different service providers; and (iii) the quantity, quality and type of related equipment offered by different service providers. We will engage, and enter into the specific agreement(s) under the Cloud Services Framework Agreement with, the Represented Tencent Group if the terms and conditions are fair and reasonable and on normal commercial terms (or terms that are no less favourable than those offered by independent third parties who can provide comparable services) and in the interest of our Company and its Shareholders as a whole.

The service fee proposed by the Represented Tencent Group is based on a predetermined pricing mechanism set by the Represented Tencent Group, which is published on Tencent Cloud's website and similar to fee rates offered to other third parties. The service fee rates of the cloud services and technical services vary depending on the exact type of services involved and actual utilization of such services, to be specific, (i) cloud server service fee is charged based on data traffic consumed each month, and the service fee rate is predetermined taking into consideration of servers, bandwidth, etc.; (ii) the service fee of cloud security is charged based on different packages and the fee rates of packages are predetermined based on bandwidth, servers and specific security services included in such packages; and (iii) the data storage service fee is charged based on the data consumed.

CONNECTED TRANSACTIONS

(e) Historical Amounts, Proposed Annual Caps and Basis of the Caps

The following tables set forth (a) the aggregate amount of fees paid by us to the Represented Tencent Group for the provision of cloud and technical services and related equipment to us during the Track Record Period; and (b) the proposed annual caps under the Cloud Services Framework Agreement:

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	<i>(HK\$'000)</i>			
Service fees and related equipment fees paid by us to the Represented Tencent Group	56,947	53,944	163,913	93,702
	For the year ending December 31,			
	2022	2023	2024	
	<i>(HK\$'000)</i>			
Service fees and related equipment fees payable by us to the Represented Tencent Group		197,475	241,179	313,533

When estimating the proposed annual caps under the Cloud Services Framework Agreement, we have considered various factors, including:

- (i) the historical service fees and related equipment fees paid by us and the existing agreements between our Group and the Represented Tencent Group. During the Track Record Period, we incurred significantly increasing service fees and related equipment fees paid to the Represented Tencent Group in respect of cloud services and related equipment due to the growth of our business and the resultant demand for cloud services and related services and equipment for our growing user and client base. The service fees and related equipment fees paid by us to the Represented Tencent Group were approximately HK\$56.9 million, HK\$53.9 million and HK\$163.9 million in 2019, 2020 and 2021, respectively, and approximately HK\$93.7 million for the six months ended June 30, 2022;

CONNECTED TRANSACTIONS

- (ii) the expected overall business growth and the expected growth in our user and client base. During the Track Record Period, our user base has grown from 7.5 million as of December 31, 2019 to 17.4 million as of December 31, 2021 and further to 18.6 million as of June 30, 2022, and our client base has grown from 717,842 as of December 31, 2019 to 2.8 million as of December 31, 2021 and further to 3.0 million as of June 30, 2022. Along with such growth of user and client base, we expect higher user engagement on our platform and continual development of our services and products, resulting in an increase in our demand for cloud services and related services and equipment (including but not limited to the higher demand for cloud servers, cloud database, cloud security, risk monitoring and management to handle such user traffic and data amount). The proposed annual caps in respect of the cloud services and related services and equipment are expected to increase along with the overall business growth; and
- (iii) our estimated demand for the cloud services and technology services from the Represented Tencent Group for the three years ending December 31, 2022, 2023 and 2024 is expected to increase with a CAGR of approximately 26% due to our growing demand for its market-leading technologies having considered the expected overall business growth and development.

(f) Listing Rules Implications

In respect of the transactions contemplated under the Cloud Services Framework Agreement, as the highest applicable percentage ratios (other than the profits ratio) under the Listing Rules is expected to be more than 5%, the transactions will be subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Contractual Arrangements

(a) Background

Due to regulatory restrictions on foreign ownership in the PRC, we conduct a portion of our business through our Consolidated Affiliated Entities in the PRC. We do not hold any equity interests in our Consolidated Affiliated Entities. The Contractual Arrangements among relevant members of our Group, our Consolidated Affiliated Entities and shareholders of our Consolidated Affiliated Entities enable us to (i) exercise effective control over our Consolidated Affiliated Entities and their subsidiaries; (ii) receive substantially all of the economic benefits from our Consolidated Affiliated Entities; and (iii) have an exclusive option to purchase all or part of the equity interests in, and/or assets, our Consolidated Affiliated Entities when and to the extent permitted by the PRC laws.

Please see the section headed "Contractual Arrangements" for details of the agreements underlying the Contractual Arrangements.

CONNECTED TRANSACTIONS

(b) Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Li and Ms. Lei Li (Mr. Li's spouse), are connected persons of our Group.

(c) Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations, that such transactions have been and will be entered into in our ordinary and usual course of business, are normal commercial terms or better, and the terms are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Our Directors also believe that our structure, whereby the financial results of our Consolidated Affiliated Entities are consolidated into our financial statements as if they were our Company's subsidiaries and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by our Consolidated Affiliated Entities and any member of our Group from time to time ("**New Intergroup Agreements**") will technically constitute continuing connected transactions under Chapter 14A of the Listing Rules. Our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all such transactions to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and independent shareholders' approval requirements. In addition, given the Contractual Arrangements were entered into prior to the Listing and are disclosed in this document, and potential investors of our Company will participate in the Listing on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent shareholders' approval requirements in respect thereof immediately after Listing would add unnecessary administrative costs to our Company.

WAIVERS

In respect of the non-exempt continuing connected transactions contemplated under the Cloud Services Framework Agreement, we have applied for, and the Stock Exchange has granted, waivers from strict compliance with the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

In respect of the Contractual Arrangements and the New Intergroup Agreements, we have applied for, and the Stock Exchange has granted, (i) a waiver from strict compliance with announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules; (ii) a waiver from strict compliance with the requirements to set a term not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53 of the Listing Rules, subject to the following conditions:

(a) No change without independent non-executive Directors' approval

Save as described below, no change to the Contractual Arrangements (including with respect to any fees payable to the WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will however continue to be applicable.

(c) Economic benefits and flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in our Consolidated Affiliated Entities held by the Registered Shareholders for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which the profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by our Consolidated Affiliated Entities under the Contractual Arrangements; and (iii) our Group's right to control the management and operation of, as well as, in substance, a substantial portion of the voting rights of our Consolidated Affiliated Entities.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between, on the one hand, our Company and the subsidiaries in which our Company has direct shareholding and, on the other hand, the Consolidated Affiliated Entities, this framework may be renewed and/or reproduced without an announcement, circular, or obtaining the approval of our Shareholders (i) upon the expiry of the existing arrangements; (ii) in connection with any changes to the shareholders or directors of, or of their shareholdings in, our Consolidated Affiliated Entities; or (iii) in relation to any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group. The directors, chief executive or substantial shareholders of any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group will, upon renewal and/or reproduction of the Contractual Arrangements, be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals. Any such renewed or reproduced agreements will be on substantially the same terms and conditions as the existing Contractual Arrangements.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report that for the relevant year (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;

CONNECTED TRANSACTIONS

- our Company’s auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have been approved by our Board, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” our Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities themselves), and therefore transactions between these connected persons and our Group (including for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- our Consolidated Affiliated Entities will, for so long as our Class A Ordinary Shares are listed on the Stock Exchange, provide our Group’s management and our Company’s auditors with full access to their relevant records for the purpose of reporting on the connected transactions.

INTERNAL CONTROL MEASURES

In order to ensure that the terms under the relevant agreements for the continuing connected transactions are fair and reasonable, and the transactions are carried out based on normal or no less than favourable commercial terms, we have adopted the following internal control procedures:

- we have adopted and implemented a management system on connected transactions. Under such systems, our audit committee is responsible for conducting review on compliance with relevant laws and regulations, our Company’s policies and the Listing Rules in respect the continuing connected transactions. In addition, our audit committee, the Board and other internal departments of our Company (including our finance and legal departments) are jointly responsible for evaluating the terms under framework agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement;

CONNECTED TRANSACTIONS

- our audit committee, the Board and other internal departments of our Company also regularly review and monitor the performance status, transaction update and the pricing policies of the specific business agreements entered into under the framework agreements;
- our independent non-executive Directors and auditors will conduct annual review of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that in accordance with Rules 14A.55 and 14A.56 of the Listing Rules the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies;
- when considering service fees for the services and fees for equipment to be provided to our Group by our connected persons or the service fees for the services to be provided by our Group to our connected persons, we will regularly consider the prevailing market conditions and practices and make reference to the pricing and terms between us and independent third parties for similar transactions, to make sure that the terms and conditions offered by/to our connected transactions from mutual commercial negotiations (as the case may be) are fair and reasonable and are based on normal or no less favourable commercial terms than those offered by/to other comparable independent third parties; and
- when considering any renewal or amendment to the framework agreements after Listing, our interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at Board meetings or Shareholders' general meetings (as the case may be), and our independent non-executive Directors and independent Shareholders have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the independent non-executive Directors' or independent Shareholders' approvals cannot be obtained, we will not continue the transactions under the framework agreement(s) to the extent that they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

CONNECTED TRANSACTIONS

CONFIRMATION FROM THE DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that (i) the non-exempt continuing connected transactions contemplated under the Cloud Services Framework Agreement above have been and will be entered into in our ordinary and usual course of business, on normal commercial terms or better, and the terms are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and (ii) the proposed caps under such non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Our Directors (including the independent non-executive Directors) are of the view that (i) the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations; (ii) such transactions have been and will be entered into in our ordinary and usual course of business, on normal commercial terms or better, and the terms are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (iii) it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of a term greater than three years.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the above continuing connected transactions; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of our Group.

Based on the above, the Joint Sponsors are of the view that the aforesaid continuing connected transactions, for which waivers have been sought, have been entered into in the ordinary and usual course of our business on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps in respect of these non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) policies of the Consolidated Affiliated Entities can be effectively controlled by the WFOE, (ii) the WFOE can obtain the economic benefits derived from our Consolidated Affiliated Entities, (iii) any possible leakage of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis, and (iv) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Upon Listing, our Board will consist of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. The following table provides certain information about our Directors:

Name	Position	Age	Date of appointment as Director	Date of joining our Group	Role and responsibility
Leaf Hua Li (李華)	Founder, Chairman of the Board, Executive Director and Chief Executive Officer	45	April 15, 2014	December 2007	Responsible for the overall strategy, research and development, business development and management of our Group
Nineway Jie Zhang (張傑)	Executive Director	48	October 31, 2014	October 2013	Responsible for the overall strategy and business development of our Group
Shan Lu (盧山)	Non-executive Director	47	October 31, 2014	October 2014	Participating in the formulation of the overall strategy of our Group
Vic Haixiang Li (李海翔)	Independent Non-executive Director ⁽¹⁾	50	March 7, 2019	March 2019	Providing professional opinion and advice to the Board
Brenda Pui Man Tam (譚沛雯)	Independent Non-executive Director ⁽²⁾	52	March 7, 2019	March 2019	Providing professional opinion and advice to the Board
Yijiang Wang (王一江)	Independent Non-executive Director ⁽³⁾	69	Listing Date	Listing Date	Providing professional opinion and advice to the Board

Notes:

- (1) Mr. Vic Haixiang Li is our independent director under applicable U.S. regulations and is also an independent non-executive Director for the purpose of the Listing Rules.
- (2) Ms. Brenda Pui Man Tam is our independent director under applicable U.S. regulations and is also an independent non-executive Director for the purpose of the Listing Rules. We have determined that Ms. Tam qualifies as an “audit committee” financial expert under the applicable rules of the SEC and has the appropriate professional accounting or financial management experience.
- (3) The appointment of Mr. Yijiang Wang as our independent non-executive Director will take effect from the Listing Date.
- (4) Other than their roles as Directors, there are no family or other relationships among any of the Directors.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Leaf Hua Li (李華), aged 45, is our founder, chairman of the Board, executive Director and chief executive officer. Mr. Li currently holds various positions in other members of the Group, including director, chief executive officer, legal representative and general manager. He is responsible for the overall strategy, research and development, business development and management of our Company. Mr. Li also leads the technology committee of our Company to formulate technology development strategies, optimize the existing technology infrastructure and implement large-scale technology projects of our Group.

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. He joined Tencent in 2000 and was the 18th founding employee of Tencent. He was an early and significant research and development participant of Tencent QQ, the founder of Tencent Video and also led the product design and development of Tencent Video. Mr. Li invented over ten international and domestic patents during his service at Tencent.

Mr. Li has been an independent director of Boqii Holding Limited, a company listed on the NYSE (stock symbol: BQ), since September 2020.

Mr. Li received his bachelor's degree in computer science and technology from Hunan University in June 2000.

Nineway Jie Zhang (張傑), aged 48, is our executive Director. Mr. Zhang currently holds various positions in other members of the Group, including director, legal representative and general manager. Mr. Zhang is responsible for the overall strategy and business development of our Group.

Mr. Zhang has been working in internet securities trading business since 2002. Prior to joining our Group, Mr. Zhang served as the deputy head of the business department of the Shenzhen branch of China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a company listed on the Stock Exchange (stock code: 6881), responsible for the development of online retail business.

Mr. Zhang received an associate's degree in marketing from Nanjing University of Science and Technology in June 1994, a master's degree in business administration from South China University of Technology in June 2009 and an executive master's degree in business administration from Cheung Kong Graduate School of Business in September 2013.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Shan Lu (盧山), aged 47, is our non-executive Director and participates in the formulation of the overall strategy of our Group.

Mr. Lu joined Tencent in 2000 and currently serves as the Senior Executive Vice President of Tencent and President of the Technology and Engineering Group of Tencent. Previously, Mr. Lu served as General Manager of the IM Product Division, Vice President of the Platform Research and Development System and Senior Vice President of the Operations Platform System of Tencent. Since March 2008, he has been responsible for managing Tencent's operating system. Since May 2012, he has been leading Tencent's Technology and Engineering Group. Mr. Lu has extensive experience in Internet technology. Mr. Lu has served as a director of China United Network Communications Limited (中國聯合網絡通信股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600050), since February 2018.

Mr. Lu received a Bachelor of Science degree in Computer Science and Technology from the University of Science and Technology of China (USTC) in July 1998.

Independent Non-executive Directors

Vic Haixiang Li (李海翔), aged 50, is our independent non-executive Director, and is mainly responsible for providing professional opinion and advice to the Board.

Mr. Vic Li is the founder and managing partner of Virtus Inspire Ventures, a boutique venture capital fund that offers seed, venture, and growth stage funding, responsible for providing strategic advice on the overall development of Virtus Inspire Ventures. Prior to founding Virtus Inspire Ventures, Mr. Vic Li had served as the Senior Executive Vice President of Tencent since 1999 and was responsible for the planning, construction and management and operation of its platforms. From 2010 to 2012, he was in charge of Tencent's online search business. Mr. Vic Li left Tencent in 2012. He now focuses on investments in technology, media and telecommunications as well as medical technology companies in China.

Mr. Vic Li received his bachelor's degree in computer software from South China University of Technology in July 1994 and his master's degree in business administration from China Europe International Business School in September 2017. He was recognized as "China Top CIO" by the CEO and CIO magazine in 2008.

Brenda Pui Man Tam (譚沛雯), aged 52, is our independent non-executive Director and is responsible for providing professional opinion and advice to the Board.

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

DIRECTORS AND SENIOR MANAGEMENT

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 November 1992. Ms. Tam is qualified as a certified public accountant 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.

Yijiang Wang (王一江), aged 69, is our independent non-executive Director and is responsible for providing professional opinion and advice to the Board. Dr. Wang's appointment will take effect from the Listing Date.

Dr. Wang is currently a professor of economics and human resources management and the associate dean for academic affairs of the Cheung Kong Graduate School of Business ("CKGSB"). Prior to joining CKGSB, Dr. Wang held positions including a member of the Chinese Economists' Society in the U.S. Dr. Wang has been editorial board member, co-editor and/or chief editor of various internationally renowned journals, including the China Economic Review, South China Economics, Annals of Economics and Finance and Journal of Comparative Economics.

Dr. Wang has been an independent non-executive director of Shenzhen Overseas Chinese Town Co., Ltd. (深圳華僑城股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000069) since April 2020, China VAST Industrial Urban Development Co., Ltd., a company listed on the Stock Exchange (stock code: 6166) since November 2017 and TCL Electronics Holdings Limited, a company listed on the Stock Exchange (stock code: 1070) since February 2016. He has also been a non-executive director of Zhejiang Red Dragonfly Footwear Co., Ltd. (浙江紅蜻蜓鞋業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603116) since September 2019. He was an independent non-executive director of Zhuhai Holdings Investment Group Limited, a company which was listed on and has been delisted from the Stock Exchange, from August 2015 to June 2016. He was also an independent director of Shenzhen Zhongqingbao Interactive Network Co. Ltd. (深圳中青寶互動網絡股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300052) from March 2014 to May 2020.

Dr. Wang received his bachelor's degree in economics from Peking University in July 1982, master's degree in economics from Peking University in July 1985, master's degree in economics from Harvard University in June 1989 and Doctor of Philosophy in economics from Harvard University in November 1991.

DIRECTORS AND SENIOR MANAGEMENT

Other Disclosure Pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this document, (i) none of the Directors had held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately prior to the Latest Practicable Date; (ii) there is no other matter in respect of each of our Directors that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules; and (iii) there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets out certain information in respect of the senior management of the Group:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Date of joining our Group</u>	<u>Role and responsibility</u>
Leaf Hua Li (李華)	Founder, Chairman of the Board, Executive Director and Chief Executive Officer	45	December 2007	Responsible for the overall strategy, research and development, business development and management of our Group
Arthur Yu Chen (陳宇)	Chief Financial Officer	46	September 2017	Responsible for the accounting, finance and internal controls functions, and the capital markets activities of our Group
Robin Li Xu (徐禮)	Senior Vice President	39	August 2013	Responsible for product development, operations, marketing and business growth of our Group

Note:

- (1) Other than their roles as our senior management members, there are no family or other relationships among any of the senior management members.

DIRECTORS AND SENIOR MANAGEMENT

Leaf Hua Li (李華), aged 45, is our founder, chairman of the Board, executive Director and chief executive officer. For further details, please refer to the section headed “— Executive Directors” above.

Arthur Yu Chen (陳宇), aged 46, has served as our chief financial officer since September 2017 and is responsible for the accounting, finance and internal controls functions, and the capital markets activities of our Group.

Prior to joining our Group, Mr. Chen served as a director at Citigroup Global Markets Asia Limited from 2009 to 2016 in its equity business, responsible for management of institutional stock 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 June 1998 and his master’s degree in business administration from China Europe International Business School in December 2005.

Robin Li Xu (徐禮), aged 39, has served as a senior vice president of our Company since September 2019 and is responsible for product development, operations, marketing and business growth of our Group.

Mr. Xu served as our vice president from August 2013 to September 2019. Prior to joining our Group, Mr. Xu has over ten years of experience in the internet industry including seven years at Tencent where he was a senior product manager responsible for online payment product development and operations for Tenpay.

Mr. Xu received his bachelor’s degree in science from Heilongjiang University in July 2006.

Other Disclosure Pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this document, (i) none of the senior management members had held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately prior to the Latest Practicable Date; (ii) there is no other matter in respect of each of our senior management members that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules; and (iii) there is no other material matter relating to our senior management members that needs to be brought to the attention of our Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Yu Qian (于千), aged 35, has been appointed as our joint company secretary taking effect from October 25, 2021.

Mr. Yu has been the legal director of our Group, responsible for overseeing our legal and compliance department since July 2020. Prior to joining our Group, he was a senior legal counsel at Baidu Group (百度集團) from April 2015 to July 2020 and was the chairman of the supervisory board of Beijing Huanxiang Zongheng Network Technology Co., Ltd. (北京幻想縱橫網絡技術有限公司). He also previously worked as a legal counsel at China National Oil and Gas Exploration and Development Company Ltd. (中國石油國際勘探開發有限公司) (formerly known as China National Oil and Gas Exploration and Development Company (中國石油天然氣勘探開發公司)).

Mr. Yu received his bachelor's degree in law from Guangdong University of Foreign Studies in June 2009 and juris doctor degree from Texas Tech University School of Law in May 2012.

Lam Wing Chi (林穎芝), has been appointed as our joint company secretary taking effect from June 30, 2022.

Ms. Lam is a senior manager of Corporate Services of Tricor Services Limited, an Asia's leading business expansion specialist specializing in integrated Business, Corporate and Investor Services. Ms. Lam has over nine years of experience in the corporate secretarial field. Ms. Lam is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute (HKCGI) (formerly "The Hong Kong Institute of Chartered Secretaries") and The Chartered Governance Institute (CGI) (formerly "The Institute of Chartered Secretaries and Administrators") in the United Kingdom. Ms. Lam currently serves as the company secretary of Raffles Interior Limited (stock code: 1376), Canggang Railway Limited (stock code: 2169), GoFintech Innovation Limited (formerly known as China Fortune Financial Group Limited (stock code: 290)) and AIM Vaccine Co., Ltd (stock code: 6660).

Ms. Lam received her bachelor's degree in accounting from Hong Kong Shue Yan University in July 2012.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' REMUNERATION

For details of the appointment letters that we have entered into with our Directors, see “Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document.

The remuneration of our Directors and senior management is paid in the form of fees, basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, discretionary bonuses and share-based compensation.

The aggregate amount of remuneration (including fees, basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, discretionary bonuses and share-based compensation) for our Directors for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 were HK\$6.4 million, HK\$14.3 million, HK\$17.7 million and HK\$7.3 million, respectively.

The aggregate amount of remuneration (including basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, discretionary bonuses and share-based compensation) for the five highest paid individuals of the Group, excluding our Directors, for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 were HK\$12.1 million, HK\$16.7 million, HK\$34.5 million and HK\$29.4 million, respectively.

Under the arrangement currently in force, the Company expects that the aggregate amount of remuneration (including fees, basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, discretionary bonuses and share-based compensation) to be paid to our Directors for the year ending December 31, 2022 will be approximately HK\$25.0 million.

Further information on the remuneration of the Directors and the five highest paid individuals during the Track Record Period is set out in the Accountant’s Report in Appendix IA to this document. For share incentive grants to our Directors and executive officers, see “Statutory and General Information — D. Share Incentive Plans” in Appendix IV to this document. Our PRC subsidiaries and Consolidated Affiliated Entities are required by law to make contributions equal to certain 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 (Chapter 485 of the Laws of Hong Kong) to make monthly contributions to the mandatory provident fund scheme in an amount equal to 5% of an employee’s salary subject to the statutory maximum at HK\$1,500.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Company.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid to any Director or any of the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by any Director or any of the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

CORPORATE GOVERNANCE

Audit Committee

Our audit committee is in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules with effect from Listing. Our audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Group. Our audit committee is 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.

Upon Listing, our audit committee will consist of three members, namely Mr. Vic Haixiang Li, Ms. Brenda Pui Man Tam and Mr. Yijiang Wang. The chairperson of the audit committee is Ms. Brenda Pui Man Tam, who is an independent Director with the appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules. For the avoidance of doubt, the appointment of Mr. Yijiang Wang to our audit committee will take effect upon Listing.

DIRECTORS AND SENIOR MANAGEMENT

Compensation Committee

Our compensation committee is in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules with effect from Listing. Our compensation committee assists the Board in reviewing and approving the compensation structure, including all forms of compensation, relating to our Directors and executive officers. Our compensation committee is 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
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Upon Listing, our compensation committee will consist of three members, namely Mr. Vic Haixiang Li, Ms. Brenda Pui Man Tam and Mr. Li. The chairperson of the compensation committee is Mr. Vic Haixiang Li.

Nomination Committee

Our nomination committee is in compliance with Chapter 8A of the Listing Rules and Corporate Governance Code as set out in Appendix 14 to the Listing Rules with effect from Listing. Our existing nominating and corporate governance committee will be re-designated and separated into (i) the nomination committee, and (ii) corporate governance committee with effect from Listing. Our nomination committee, among other things, assists the Board in selecting individuals qualified to become our Directors and in determining the composition of the Board and its committees. Our nomination committee is responsible for, among other things:

- selecting and recommending to the director 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; and
- making recommendations on the frequency and structure of Board meetings and monitoring the functioning of the committees of the Board.

DIRECTORS AND SENIOR MANAGEMENT

Upon Listing, our nomination committee will consist of three members, namely Mr. Vic Haixiang Li, Ms. Brenda Pui Man Tam and Mr. Li. The chairperson of the nomination committee is Mr. Vic Haixiang Li.

Corporate Governance Committee

Our corporate governance committee is in compliance with Chapter 8A of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules with effect from Listing. Our existing nominating and corporate governance committee will be re-designated and separated into (i) the nomination committee, and (ii) corporate governance committee with effect from Listing.

The primary duties of the corporate governance committee are, among other things, to advise 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 make recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Upon Listing, our corporate governance committee will consist of three independent non-executive Directors, namely Mr. Vic Haixiang Li, Ms. Brenda Pui Man Tam and Mr. Yijiang Wang. The chairperson of the corporate governance committee is Mr. Yijiang Wang. For the avoidance of doubt, the appointment of Mr. Yijiang Wang to our corporate governance committee will take effect upon Listing. For details of their experience in corporate governance related matters, please refer to their biographies in the sub-section headed “— Board of Directors — Independent Non-executive Directors” above.

In accordance with Rule 8A.30 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the work of our corporate governance committee as set out in its terms of reference includes:

- (a) to develop and review our Company’s policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor our Company’s policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

DIRECTORS AND SENIOR MANAGEMENT

- (e) to review our Company's compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report;
- (f) to review and monitor whether the Company is operated and managed for the benefit of all of its Shareholders;
- (g) to confirm, on an annual basis, that the beneficiaries of weighted voting rights have been members of the Board throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the relevant financial year;
- (h) to confirm, on an annual basis, whether or not the beneficiaries of weighted voting rights have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year;
- (i) to review and monitor the management of conflicts of interests and make recommendation to the Board on any matter where there is a potential conflict of interest between our Company, its subsidiaries or Consolidated Affiliated Entities and/or Shareholder on one hand and any beneficiary of weighted voting rights on the other;
- (j) to review and monitor all risks related to our Company's WVR structure, including connected transactions between our Company and/or its subsidiaries or Consolidated Affiliated Entities on one hand and any beneficiary of weighted voting rights on the other and make recommendation to the Board on any such transaction;
- (k) to make recommendation to the Board as to the appointment or removal of the compliance adviser of the Company;
- (l) to seek to ensure effective and on-going communication between our Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules; and
- (m) to report on the work of the corporate governance committee on at least a half-yearly and annual basis covering all areas of its terms of reference, including disclosing, on a comply or explain basis, its recommendations to the Board in respect of the matters in items (i) to (k) above.

Pursuant to Rule 8A.32 of the Listing Rules, the Corporate Governance Report prepared by our Company for inclusion in our interim and annual reports after Listing will include a summary of the work of the corporate governance committee for the relevant period.

DIRECTORS AND SENIOR MANAGEMENT

Roles of our Independent Non-executive Directors

Pursuant to Rule 8A.26 of the Listing Rules, the role of the independent non-executive directors of a listed company with WVR structure must include, but is not limited to, the functions described in Code Provisions A.6.2, A.6.7 and A.6.8 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The functions of our independent non-executive Directors include:

- (a) participating in Board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, compensation, nomination and corporate governance committees, if invited;
- (d) scrutinizing our Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting;
- (e) giving the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation;
- (f) making positive contribution to the development of our Company's strategy and policies through independent, constructive and informed comments; and
- (g) attending general meetings and developing a balanced understanding of the views of our Shareholders.

Chairman of the Board and Chief Executive

Pursuant to code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Li currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

We will adopt a board diversity policy (“**Board Diversity Policy**”) which sets out the approach to achieve and maintain diversity in our Board prior to Listing. Our Company recognises and embraces the benefits of having a diverse Board. Pursuant to our Board Diversity Policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge, length of service and other related factors. We will also consider our own business model and special needs. The ultimate selection of Director candidates will be based on merits of the candidates and contribution that the candidates will bring to our Board.

Our Board comprises of six members, including one female Director. Our Directors also have a balanced mix of knowledge, skills and experience, including property development, business management, finance and investment. They obtained degrees in various majors including computer science, business administration, accountancy, science and economics. We have three independent non-executive Directors who have different industry backgrounds, representing half of our Board members. In recognition of the particular importance of gender diversity, our Company has taken, and will continue to take steps to promote gender diversity in our Board. Further, our Company will continue to consider increasing the proportion of female Board members over time when selecting suitable new or additional candidates for appointments to our Board so as to ensure that appropriate gender diversity is achieved with reference to stakeholders’ expectation and international and local recommended best practices, where appropriate.

Our nomination committee will be responsible for the implementation of our board diversity policy. Upon completion of the Listing, our nomination committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of our board diversity policy in our Corporate Governance Report on an annual basis.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rules 3A.19 and 8A.33 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 and 8A.34 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document;
- (d) where the Hong Kong Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules;
- (e) the WVR structure;
- (f) transactions in which any beneficiary of weighted voting rights in the Company has an interest; and
- (g) where there is a potential conflict of interest between the Company, its subsidiary and/or Shareholders (considered as a group) on one hand and any beneficiary of weighted voting rights in the Company on the other.

The term of appointment of the Compliance Adviser shall commence on the Listing Date. Pursuant to Rule 8A.33 of the Listing Rules, the Company is required to engage a compliance adviser on a permanent basis.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Each of the Directors confirms that as of the Latest Practicable Date, he/she did not have any interest in a business which materially competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the Listing, Mr. Li will be interested in and will control a total of 239,750,000 Class B Ordinary Shares held by Lera Ultimate Limited and Lera Infinity Limited, a total of 164,086,568 Class A Ordinary Shares held by Lera Ultimate Limited and Lera Infinity Limited, and directly in the form of ADSs. Lera Ultimate Limited and Lera Infinity Limited are ultimately owned by trusts established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. For details, please see the section headed “Share Capital.”

Assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, and considering that (A) the voting rights attached to Class B Ordinary Shares will be modified from 20 votes to ten votes per Share with effect from the Listing pursuant to the irrevocable written consent dated November 21, 2022 delivered by Mr. Li; and (B) all Class B Ordinary Shares held by Tencent Group through Qiantang River Investment Limited will be converted into Class A Ordinary Shares upon Listing, Mr. Li will be interested in approximately 36.25% of our issued and outstanding share capital, and will be entitled to exercise approximately 78.29% of the voting rights in the Company (except for resolutions with respect to the Reserved Matters, in relation to which each Share is entitled to one vote) upon the completion of the Introduction.

Therefore, Mr. Li, Lera Ultimate Limited and Lera Infinity Limited together will constitute the Controlling Shareholders of our Company after the Listing. See “Share Capital — Weighted Voting Rights Structure” for details of the weighted voting rights attached to the Class B Ordinary Shares of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the Listing.

Management Independence

Our business is managed and conducted by our Board and senior management. Upon Listing, our Board will consist of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Li, a Controlling Shareholder, is our founder, chairman of the Board, executive Director and chief executive officer. For further details, please see the section headed “Directors and Senior Management.”

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a director which require each of them to, among others, act for the benefit and in the interest of our Group and not to allow any conflict between their duties as a Director and their personal interests, and Director with potential conflict of interest should abstain from voting at the relevant Board meeting;
- (b) our daily management and operations are carried out by our a senior management team, all of whom have substantial experience in the industry in which our Group is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) would be required to declare the nature of such interest before voting at the relevant Board meeting; and
- (e) we have adopted other corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders, as detailed in “— Corporate Governance Measures” below.

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholders.

Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Our Group holds all relevant licenses, and owns all relevant intellectual properties and technologies, which are necessary and material to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our Directors believe that our business is operationally independent of our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

Our Group has an independent accounting and internal control system and makes financing decisions according to our own business needs. We have an independent finance department responsible for discharging the treasury function. We can obtain financing from third parties, if necessary, without reliance on our Controlling Shareholders.

In 2018, we provided certain margin services in our ordinary course of business to Mr. Li. Our Group does not currently provide such margin services to Mr. Li. Save as the above, during the Track Record Period, our Controlling Shareholders or their associates had not provided any loan or guarantee in favour of the Group, and our Group had not granted to our Controlling Shareholders or their associates any such loan or guarantee. Upon Listing, there will be no outstanding loan or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates.

Based on the above, our Directors believe that our business is financially independent of our Controlling Shareholders.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company and our Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders.

In light of the above, our Company has established a corporate governance committee which has adopted terms of reference consistent with Code Provision D.3.1 of Appendix 14 to, and Rule 8A.30 of, the Listing Rules. Our corporate governance committee consists of all our independent non-executive Directors with experience in overseeing corporate governance related functions of private and listed companies. The primary duties of the corporate governance committee are to ensure that our Company is operated and managed for the benefit of all Shareholders and to ensure our Company's compliance with the Listing Rules and safeguards relating to its WVR structure.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We will also adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is held pursuant to the Listing Rules to consider proposed transactions or arrangements in which our Controlling Shareholders or any of their associates have a material interest, our Controlling Shareholder(s) shall abstain from voting and their votes shall not be counted;
- (b) our Company has established internal control measures to identify connected transactions and will comply with the applicable Listing Rules if the Group enters into connected transactions with our Controlling Shareholders or any of their associates after the Listing;
- (c) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expense;
- (d) we have appointed Guotai Junan Capital Limited as our Compliance Adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (e) we have established our audit committee, compensation committee, nomination committee and corporate governance committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly held, or are entitled to exercise the control of 5% or more of our share capital (without taking into account the Class A Ordinary Shares issued to our depositary bank for bulk issuance of ADS reserved for future issuance upon the exercise or vesting of awards granted under the Share Incentive Plans):

Name of substantial shareholder	Capacity/Nature of interest	Class of Shares	Number of Shares	Approximate Percentage of shareholding in the issued share capital of our Company
Tencent ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Interest in controlled corporations	Class A Ordinary Shares	106,616,611	9.57%
		Class B Ordinary Shares	140,802,051	12.64%
Image Frame Investment (HK) Limited ⁽¹⁾	Beneficial interest	Class A Ordinary Shares	71,024,142	6.38%
Qiantang River Investment Limited ⁽²⁾	Beneficial interest	Class A Ordinary Shares	28,840,949	2.59%
		Class B Ordinary Shares	140,802,051	12.64%
Tencent Mobility Limited ⁽³⁾	Beneficial interest	Class A Ordinary Shares	5,412,888	0.49%
TPP Opportunity GP I, Ltd. ⁽⁴⁾	Beneficial interest	Class A Ordinary Shares	1,161,840	0.10%
Distribution Pool Limited ⁽⁵⁾	Beneficial interest	Class A Ordinary Shares	176,792	0.02%
Mr. Li ⁽⁶⁾	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	Class A Ordinary Shares	164,000,000	14.72%
		Class A Ordinary Shares	86,568	0.01%
	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	Class B Ordinary Shares	239,750,000	21.52%

SUBSTANTIAL SHAREHOLDERS

Name of substantial shareholder	Capacity/Nature of interest	Class of Shares	Number of Shares	Approximate Percentage of shareholding in the issued share capital of our Company
Lera Ultimate Limited ⁽⁶⁾	Beneficial interest	Class A Ordinary Shares	100,000,000	8.98%
		Class B Ordinary Shares	202,812,500	18.20%
Lera Infinity Limited ⁽⁶⁾	Beneficial interest	Class A Ordinary Shares	64,000,000	5.74%
		Class B Ordinary Shares	36,937,500	3.32%

Notes:

- (1) Image Frame Investment (HK) Limited is a company incorporated in Hong Kong. Image Frame Investment (HK) Limited is a wholly owned subsidiary of Tencent. As of the Latest Practicable Date, Image Frame Investment (HK) Limited directly held 71,024,142 Class A Ordinary Shares. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Image Frame Investment (HK) Limited.
- (2) Qiantang River Investment Limited is a company incorporated in British Virgin Islands. Qiantang River Investment Limited is a wholly owned subsidiary of Tencent. As of the Latest Practicable Date, Qiantang River Investment Limited directly held 28,840,949 Class A Ordinary Shares and 140,802,051 Class B Ordinary Shares. As such, Tencent is deemed to be interested in the Class A Ordinary Shares and Class B Ordinary Shares held by Qiantang River Investment Limited.
- (3) As of the Latest Practicable Date, 5,412,888 Class A Ordinary Shares, represented by 676,611 ADSs, were held of record by Tencent Mobility Limited, a wholly-owned subsidiary of Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Tencent Mobility Limited.
- (4) As of the Latest Practicable Date, 1,161,840 Class A Ordinary Shares, represented by 145,230 ADSs, were held of record by TPP Opportunity GP I, Ltd., an entity controlled by Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by TPP Opportunity GP I, Ltd.
- (5) As of the Latest Practicable Date, 176,792 Class A Ordinary Shares, represented by 22,099 ADSs, were held of record by Distribution Pool Limited, an entity controlled by Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Distribution Pool Limited.
- (6) Lera Ultimate Limited is a BVI business company ultimately owned by Lera Direction Plus Trust and Lera Infinity Limited is a BVI business company ultimately owned by Lera Target Trust. Lera Direction Plus Trust and Lera Target Trust were established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. Mr. Li has the sole 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. Mr. Li is deemed to be interested in the Shares held by Lera Ultimate Limited and Lera Infinity Limited.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Introduction and assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, the following persons will have interests and/or short positions (as applicable) in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10 % or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of substantial shareholder	Capacity/Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding in each class of share of our Company immediately after the Introduction ⁽¹⁾
<i>Class A Ordinary Shares</i>			
Tencent ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	Interest in controlled corporations	247,418,662	28.30%
Image Frame Investment (HK) Limited ⁽²⁾	Beneficial interest	71,024,142	8.12%
Qiantang River Investment Limited ⁽³⁾	Beneficial interest	169,643,000	19.40%
Tencent Mobility Limited ⁽⁴⁾	Beneficial interest	5,412,888	0.62%
TPP Opportunity GP I, Ltd. ⁽⁵⁾	Beneficial interest	1,161,840	0.13%
Distribution Pool Limited ⁽⁶⁾	Beneficial interest	176,792	0.02%
Mr. Li ⁽⁷⁾	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	164,000,000	18.76%
	Beneficial interest	86,568	0.01%
Lera Ultimate Limited ⁽⁷⁾	Beneficial interest	100,000,000	11.44%
Lera Infinity Limited ⁽⁷⁾	Beneficial interest	64,000,000	7.32%
<i>Class B Ordinary Shares</i>			
Mr. Li ⁽⁷⁾	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	239,750,000	100.00%
Lera Ultimate Limited ⁽⁷⁾	Beneficial interest	202,812,500	84.59%
Lera Infinity Limited ⁽⁷⁾	Beneficial interest	36,937,500	15.41%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) The table above assumes (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, and (ii) the Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited are converted into Class A Ordinary Shares on one-on-one basis. Each Class A Ordinary Share entitles the holder thereof to exercise one vote at the Company's general meetings. This table also excludes Class A Ordinary Shares issued to our depository bank for bulk issuance of ADS reserved for future issuance upon the exercise or vesting of awards granted under the Share Incentive Plans.
- (2) Image Frame Investment (HK) Limited is a company incorporated in Hong Kong. Image Frame Investment (HK) Limited is a wholly owned subsidiary of Tencent. As of the Latest Practicable Date, Image Frame Investment (HK) Limited directly held 71,024,142 Class A Ordinary Shares. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Image Frame Investment (HK) Limited.
- (3) Qiantang River Investment Limited is a company incorporated in British Virgin Islands. Qiantang River Investment Limited is a wholly owned subsidiary of Tencent. As of the Latest Practicable Date, Qiantang River Investment Limited directly held 28,840,949 Class A Ordinary Shares and 140,802,051 Class B Ordinary Shares. Pursuant to a conversion notice dated October 25, 2021, all of the 140,802,051 Class B Ordinary Shares held by Qiantang River Investment Limited will be converted into Class A ordinary shares upon Listing. As such, Tencent is deemed to be interested in the Class A Ordinary Shares (including 140,802,051 Class B Ordinary Shares to be converted into Class A Ordinary Shares on one-on-one basis upon the completion of the Introduction) held by Qiantang River Investment Limited.
- (4) As of the Latest Practicable Date, 5,412,888 Class A Ordinary Shares, represented by 676,611 ADSs, were held of record by Tencent Mobility Limited, a wholly-owned subsidiary of Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Tencent Mobility Limited.
- (5) As of the Latest Practicable Date, 1,161,840 Class A Ordinary Shares, represented by 145,230 ADSs, were held of record by TPP Opportunity GP I, Ltd., an entity controlled by Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by TPP Opportunity GP I, Ltd.
- (6) As of the Latest Practicable Date, 176,792 Class A Ordinary Shares, represented by 22,099 ADSs, were held of record by Distribution Pool Limited, an entity controlled by Tencent. As such, Tencent is deemed to be interested in the Class A Ordinary Shares held by Distribution Pool Limited.
- (7) Lera Ultimate Limited is a BVI business company ultimately owned by Lera Direction Plus Trust and Lera Infinity Limited is a BVI business company ultimately owned by Lera Target Trust. Lera Direction Plus Trust and Lera Target Trust were established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. Mr. Li has the sole 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. Mr. Li is deemed to be interested in the Shares held by Lera Ultimate Limited and Lera Infinity Limited.

Except as disclosed above, our Directors are not aware of any other person (other than a Director or chief executive of the Company) who will, immediately following the completion of the Introduction (and assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date), have any interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company upon the Listing:

Authorized Share Capital

Number of Shares	Description of Shares	Aggregate nominal value of Shares <i>(US\$)</i>
48,700,000,000	Class A Ordinary Shares of a par value of US\$0.00001 each	487,000.00
800,000,000	Class B Ordinary Shares of a par value of US\$0.00001 each	8,000.00
500,000,000	Undesignated shares of a par value of US\$0.00001 each	5,000.00
<u>50,000,000,000</u>	Total	<u>500,000.00</u>

Issued and outstanding as of Latest Practicable Date

Number of Shares	Description of Shares	Aggregate nominal value of Shares <i>(US\$)</i>	Approximate percentage of the issued share capital
733,502,308 ⁽¹⁾	Class A Ordinary Shares of a par value of US\$0.00001 each	7,335.02308	65.84%
140,802,051 ⁽²⁾	Class B Ordinary Shares of a par value of US\$0.00001 each which are beneficially owned by the relevant Tencent Entity	1,408.02051	12.64%
874,304,359	Sub-total	8,743.04359	78.48%

SHARE CAPITAL

Number of Shares	Description of Shares	Aggregate nominal value of Shares (US\$)	Approximate percentage of the issued share capital
239,750,000	Class B Ordinary Shares of a par value of US\$0.00001 each which are beneficially owned by Mr. Li	2,397.50000	21.52%
1,114,054,359	Total	11,140.54	100%

Notes:

- (1) This reflects the number of Class A Ordinary Shares issued and outstanding immediately prior to conversion of Class B Ordinary Shares by Qiantang River Investment Limited, one of the Tencent Entities.
- (2) The Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited will be converted into Class A Ordinary Shares upon the completion of the Introduction pursuant to the conversion notice delivered by Qiantang River Investment Limited.

Conversion of Class B Ordinary Shares by the relevant Tencent Entity

As of the Latest Practicable Date, Tencent Group, through Qiantang River Investment Limited, beneficially owned an aggregate of 140,802,051 Class B Ordinary Shares. On October 25, 2021, Qiantang River Investment Limited, one of the Tencent Entities, delivered a share conversion notice to the Company to convert all of the 140,802,051 Class B Ordinary Shares held by the relevant Tencent Entity to Class A Ordinary Shares upon Listing. Each Class B Ordinary Share is convertible into one Class A Ordinary Share at any time by the holder thereof. Upon the conversion of a total of the 140,802,051 Class B Ordinary Shares held by the relevant Tencent Entity into Class A Ordinary Shares which will take effect upon Listing, the Company will issue 140,802,051 Class A Ordinary Shares, representing approximately 16.10% the total number of issued Class A Ordinary Shares upon completion of the Introduction and conversion of Class B Ordinary Shares into Class A Ordinary Shares (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date).

SHARE CAPITAL

Issued and outstanding following the completion of the Introduction

The issued share capital of our Company immediately following the completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date and without taking into account the Class A Ordinary Shares issued (as of the Latest Practicable Date) to our depositary bank for bulk issuance of ADS reserved for future issuance upon the exercise or vesting of awards granted under the Share Incentive Plans) will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares	Approximate percentage of the issued share capital
		<i>(US\$)</i>	
874,304,359	Class A Ordinary Shares of a par value of US\$0.00001 each	8,743.04359	78.48%
239,750,000	Class B Ordinary Shares of a par value of US\$0.00001 each which are beneficially owned by Mr. Li	2,397.50000	21.52%
<u>1,114,054,359</u>	Total	<u>11,140.54359</u>	<u>100%</u>

WEIGHTED VOTING RIGHTS STRUCTURE

WVR Structure

As of the Latest Practicable Date, our Company adopted a weighted voting rights structure, under which our share capital comprises Class A Ordinary Shares (which entitles the holders to exercise one vote) and Class B Ordinary Shares (which entitles the holders to exercise 20 votes). On November 21, 2022, pursuant to our existing Articles of Association, Mr. Li, being the WVR Beneficiary, delivered an irrevocable written consent to the Company, among other things, to consent to the modification of voting rights attached to each Class B Ordinary Share from 20 votes to ten votes pursuant to Rule 8A.10 of the Listing Rules, effective upon the Listing. Accordingly, each Class B Ordinary Share shall entitle its holder to exercise ten votes, with effect from the Listing on all matters that require a shareholder's vote, subject to Rule 8A.24 of the Listing Rules that requires a limited number of Reserved Matters to be voted on a one vote per share basis as set out below (save for the specified exception for the compliance of Rule 8A.24 of the Listing Rules).

SHARE CAPITAL

The Reserved Matters are:

- (i) any amendment to the Memorandum of Association or Articles of Association, including the variation of the rights attached to any class of shares;
- (ii) the appointment, election or removal of any independent non-executive Director;
- (iii) the appointment or removal of the Company's auditors; and
- (iv) the voluntary liquidation or winding-up of the Company.

In addition, our Articles of Association do not currently satisfy some of the articles requirements under Chapter 8A (including Rule 8A.10) of, and Appendix 3 to, the Listing Rules (the “**Unmet Listing Rules Articles Requirements**”), and we will also put forth resolutions to incorporate the Unmet Listing Rules Articles Requirements into our Articles of Association at the next general meeting following the Listing (the “**First GM**”), which we have undertaken to convene on or before June 30, 2023.

Furthermore, we undertake to, at the First GM, seek shareholders' approval to amend our Articles to incorporate the Unmet Articles Requirements into the Articles. Details of these proposed amendments are set out in the section headed “Waivers — Requirements relating to the Articles of Association of the Company” of this document.

In addition, save for the exceptions specified below, we have undertaken to the Stock Exchange to fully comply with the Unmet Articles Requirements upon the Listing and before our Articles are formally amended:

- paragraph 15 of Appendix 3 to the Listing Rules such that, prior to the Company's Articles being amended, the threshold for passing a resolution in a separate class meeting will be approval by two-thirds of the votes cast by the issued shares of that class pursuant to article 17 of the Company's existing Articles;
- Rules 8A.24(1) and (2) of the Listing Rules such that, prior to the Company's Articles being amended, weighted voting rights will apply in connection with passing the Proposed Resolutions; and
- paragraph 16 of Appendix 3 to the Listing Rules such that, prior to the Company's Articles being amended, the threshold for passing a special resolution for amendments to the Company's Articles will be approved by members holding not less than two-thirds of the voting rights of those present and voting in person or by proxy at the general meeting in accordance with article 158 of the Company's existing Articles.

SHARE CAPITAL

For further details, please see “Waivers — Requirements relating to the Articles of Association of the Company” and the summary of the Articles of Association in Appendix III to this document.

The table below sets out the ownership and voting rights to be held by the WVR Beneficiary upon the completion of the Introduction:

	Number of Shares	Approximate % of issued and outstanding share capital⁽¹⁾	Approximate % of total voting rights⁽¹⁾⁽²⁾
Class A Ordinary Shares	164,086,568	14.73%	5.02%
Class B Ordinary Shares	239,750,000	21.52%	73.28%
Total	403,836,568	36.25%	78.29%

Notes:

- (1) Assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date and all Class B Ordinary Shares held by Tencent Group through Qiantang River Investment Limited will be converted to Class A Ordinary Shares on a one-on-one basis upon the completion of the Introduction.
- (2) Class A Ordinary Shares entitle the Shareholder to one vote per share and Class B Ordinary Shares entitle the Shareholder to ten (10) votes per share with effect from the Listing, except for resolutions with respect to the Reserved Matters for which each Share entitles each Shareholder to one vote per share.

Class B Ordinary Shares may be converted into Class A Ordinary Shares on a one-on-one basis. Immediately after the completion of the Introduction, upon the conversion of all the issued and outstanding Class B Ordinary Shares into Class A Ordinary Shares, the Company will issue 239,750,000 Class A Ordinary Shares, representing approximately 27.42% of the total number of issued and outstanding Class A Ordinary Shares upon completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date).

The weighted voting rights attached to our Class B Ordinary Shares will cease when the WVR Beneficiary no longer has beneficial ownership of any of our Class B Ordinary Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;

SHARE CAPITAL

- (ii) when the holders of Class B Ordinary Shares have transferred to another person the beneficial ownership of, or economic interest in, all of the Class B Ordinary Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (iii) where a vehicle holding Class B Ordinary Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or
- (iv) when all of the Class B Ordinary Shares have been converted to Class A Ordinary Shares.

Save for the weighted voting rights attached to Class B Ordinary Shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A Ordinary Shares and Class B Ordinary Shares, see “Summary of the Constitution of the Company and Cayman Companies Act — Summary of the Constitution of the Company — 2. Articles of Association” in Appendix III for further details.

WVR Beneficiary

Immediately upon completion of the Introduction, the WVR Beneficiary will be Mr. Li, our founder, chairman of the Board, executive Director and chief executive officer. Assuming (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date; and (ii) all Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited are converted to Class A Ordinary Shares upon the completion of the Introduction, Mr. Li will beneficially own and will control, through entities affiliated with him (i.e. Lera Ultimate Limited and Lera Infinity Limited), an aggregate of 239,750,000 Class B Ordinary Shares, representing (a) approximately 21.52% of our issued and outstanding Shares; (b) approximately 73.28% of the effective voting rights in our Company with respect to shareholder resolutions relating to matters other than the Reserved Matters; and (c) approximately 21.52% with respect to shareholder resolutions relating to the Reserved Matters upon completion of the Introduction. Lera Ultimate Limited and Lera Infinity Limited are ultimately owned by Lera Direction Plus Trust and Lera Target Trust, respectively, each of which is a trust established by Mr. Li (as the settlor) for the benefit of his family and himself.

SHARE CAPITAL

The Company confirms that the holding arrangement through which the WVR Beneficiary holds the Class B Ordinary Shares as described above meets the requirements in Rule 8A.18 of the Listing Rules and the holding arrangement is permitted under the “Consultation Conclusions—a listing regime for companies from emerging and innovative sectors” issued by the Stock Exchange in April 2018, namely: (a) a partnership of which the WVR Beneficiary is a partner and the terms of which must expressly specify that the voting rights attached to any and all of the Class B Ordinary Shares held by such partnership are solely dictated by the WVR Beneficiary; (b) a trust of which the WVR Beneficiary is a beneficiary and that meets the following conditions: (i) the WVR Beneficiary must in substance retain an element of control of the trust and any immediate holding companies of, or, if not permitted in the relevant tax jurisdiction, retain a beneficial interest in any and all of the Class B Ordinary Shares held by such trust; and (ii) the purpose of the trust must be for estate planning and/or tax planning purposes; or (c) a private company or other vehicle wholly-owned and wholly controlled by the WVR Beneficiary or by a trust referred to in paragraph (b) above.

Each of the Company and Mr. Li confirms that there is no encumbrance over any Class B Ordinary Shares as at the date of this document and that no new encumbrance will be created over any Class B Ordinary Shares before the proposed amendments to the Articles as described in the section headed “Waivers — Requirements relating to the Articles of Association of the Company” have become effective.

The Company’s WVR structure enables the WVR Beneficiary to exercise voting control over the Company notwithstanding that the WVR Beneficiary does not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR Beneficiary who will control the Company with a view to its long-term prospects and strategy.

Mr. Li is the founder, chairman of the Board, executive Director and chief executive officer of our Company. He has been the forefront of our Group’s growth and innovation since its inception, providing the core vision and philosophy and participating in all of the key management decisions that has led to the continued success and development of our Group. In particular, Mr. Li has led the technology committee of our Company to formulate technology development strategies, optimize the existing technology infrastructure and implement large-scale technology projects of our Group. For Mr. Li’s biographical details, please refer to “Directors and Senior Management” of this document.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR Beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of Shareholders’ resolutions. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure, see “Risk factors — Risks related to our Class A Ordinary Shares and ADSs.”

SHARE CAPITAL

Undertakings by the WVR Beneficiary

Pursuant to Rule 8A.43 of the Listing Rules, the WVR Beneficiary is required to give a legally enforceable undertaking to the Company that he will comply with the relevant requirements as set out in Rule 8A.43 of the Listing Rules, which is intended to be for the benefit of and enforceable by the Shareholders. On December 20, 2022, Mr. Li made an undertaking to the Company (the “**Undertaking**”), that for so long as he is a WVR Beneficiary:

- (a) he shall comply with (and, if the shares to which the weighted voting rights that he is beneficially interested in are attached are held through a limited partnership, trust, private company, or other vehicle, use his best endeavors to procure that such limited partnership, trust, private company or other vehicle complies with) all applicable requirements under Rules 8A.09, 8A.14, 8A.15, 8A.17, 8A.18 and 8A.24 of the Listing Rules from time to time in force (the “**Requirements**”); and
- (b) he shall use his best endeavors to procure that the Company complies with all applicable Requirements, to the extent not waived by the Stock Exchange.

For the avoidance of doubt, the Requirements are subject to Rule 2.04 of the Listing Rules. The WVR Beneficiary acknowledged and agreed that the Shareholders rely on the Undertaking in acquiring and holding their shares. The WVR Beneficiary acknowledged and agreed that the Undertaking is intended to confer a benefit on the Company and all Shareholders and may be enforced by the Company and/or any Shareholder against the WVR Beneficiary.

The Undertaking shall automatically terminate upon the earlier of (i) the date of delisting of the Company from the Stock Exchange, and (ii) the date on which the WVR Beneficiary ceases to be a beneficiary of weighted voting rights in the Company. For the avoidance of doubt, the termination of the Undertaking shall not affect any rights, remedies, obligations or liabilities of the Company and/or any Shareholder and/or the WVR Beneficiary himself that have accrued up to the date of termination, including the right to claim damages and/or apply for any injunction in respect of any breach of the Undertaking which existed at or before the date of termination.

The Undertaking shall be governed by the laws of Hong Kong and all matters, claims or disputes arising out of the Undertaking shall be subject to the exclusive jurisdiction of the courts of Hong Kong.

SHARE CAPITAL

SHAREHOLDING BY OUR MAJOR SHAREHOLDERS

The table below sets forth the number of Shares held, voting rights and beneficial interests of the Company's major shareholders and other shareholders upon Listing, assuming (i) no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date; and (ii) all Class B Ordinary Shares beneficially owned by Tencent Group through Qiantang River Investment Limited are converted to Class A Ordinary Shares upon the completion of the Introduction.

<u>Shareholders</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Approximate % of voting rights⁽¹⁾</u>	<u>Approximate % of issued and outstanding share capital</u>
WVR Beneficiary . . .	Class A Ordinary Shares	164,086,568	5.02%	14.73%
	Class B Ordinary Shares	239,750,000	73.28%	21.52%
Tencent Entities	Class A Ordinary Shares	247,418,662	7.56%	22.21%
Other Directors	Class A Ordinary Shares	4,779,480	0.15%	0.43%
Other Shareholders ⁽²⁾	Class A Ordinary Shares	458,019,649	14.00%	41.11%

Notes:

- (1) Class A Ordinary Shares entitle the Shareholder to one vote per share and Class B Ordinary Shares entitle the Shareholder to ten (10) votes per share with effect from the Listing, except for resolutions with respect to the Reserved Matters for which each Share entitles each Shareholder to one vote per share.
- (2) Representing Shareholders who, to the best knowledge of the Directors, hold less than 5% of our issued share capital and are independent third parties.

SHARE INCENTIVE PLANS

See “Statutory and General Information — D. Share Incentive Plans” as set out in Appendix IV to this document for details about our Share Incentive Plans.

SHARE CAPITAL

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which General Meeting and Class Meeting are Required

Our Company may by ordinary resolution (i) increase its share capital by the creation of new shares; (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person; and (iv) sub-divide its shares or any of them into shares of smaller amount. In addition, our Company may by special resolution reduce its share capital or any capital redemption reserve subject to any conditions prescribed by the Cayman Companies Act.

See “Summary of the Constitution of the Company and Cayman Companies Act — Summary of the Constitution of the Company — Articles of Association — Summary of the Constitution of the Company — 2. Articles of Association — 2.11 Changes in Share Capital” in Appendix III for further details.

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Act, be varied or abrogated only with (in addition to a special resolution to amend the Memorandum or the Articles) the consent in writing of the holders of not less than two-thirds in nominal value 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 Present (as defined in the Articles) and voting at such meeting.

See “Summary of the Constitution of the Company and Cayman Companies Act — Summary of the Constitution of the Company — Articles of Association — Summary of the Constitution of the Company — 2. Articles of Association — 2.7 Variation of Rights of Shares” in Appendix III for further details.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2019, 2020 and 2021, including the notes thereto, included in the Accountant’s Report in Appendix IA, together with the respective accompanying notes. Our consolidated financial information has been prepared in accordance with U.S. GAAP.

The Stock Exchange has granted us a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19.13 and 19.25A of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules, to allow us to prepare the Accountant’s Report set out in Appendix IA in conformity with U.S. GAAP, provided that a reconciliation of such financial information in accordance with IFRS, is included in this document. In addition, the Stock Exchange has allowed us to prepare our accounts in accordance with GAAP after listing for the purposes of our financial reporting required under the Listing Rules, subject to the condition that, among others, our annual consolidated financial statements should include a reconciliation of our financial information in accordance with IFRS in the form and substance adopted in Appendix IA to this document.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this document. For further details, see “Forward-Looking Statements.”

OVERVIEW

We are a leading one-stop financial technology platform transforming investing experience with our fully digitalized brokerage and wealth management product distribution services in Hong Kong. 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. Today, we have become a market leader in Hong Kong in the retail securities brokerage industry and a go-to brand for retail securities trading. According to CIC, we are the largest securities broker in terms of retail securities trading volume on the Hong Kong Stock Exchange, with a market share of 10.7% as of December 31, 2021.

A securities brokerage service provider at inception, we are now an all-rounded online financial services platform, integrating services including trading, wealth management product distribution, market data and information, user community, investor education, and corporate services, serving approximately 19.2 million users. We provide a comprehensive range of investment products, including equities and derivatives across major global exchanges, margin

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financing and securities lending, as well as fund and bond investments. We have developed a proprietary and highly automated technology infrastructure encompassing account opening, fund transfer, trading and investment and risk management to support every aspect of our business operations.

We experienced robust growth during the Track Record Period. Our revenue increased from HK\$1,061.6 million in 2019 to HK\$3,310.8 million in 2020, and further to HK\$7,115.3 million in 2021, representing a CAGR of 158.9% from 2019 to 2021. Our revenue decreased by 10.4% from HK\$3,781.5 million for the six months ended June 30, 2021 to HK\$3,387.7 million (US\$431.7 million) for the six months ended June 30, 2022. Our gross profit increased from HK\$779.9 million in 2019 to HK\$2,614.9 million in 2020 and further increased to HK\$5,909.3 million in 2021, representing a CAGR of 175.3% from 2019 to 2021. Our gross profit decreased from HK\$3,059.5 million for the six months ended June 30, 2021 to HK\$2,951.9 million (US\$376.2 million) for the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded net income of HK\$165.7 million, HK\$1,325.5 million, HK\$2,810.2 million and HK\$1,213.5 million (US\$154.6 million) respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are influenced by general factors affecting the online retail brokerage industry in the regions we operate, including the overall economic, regulatory and market conditions, level of per capita disposable income in these regions, 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 demand from Hong Kong, Mainland China, Singapore, the U.S. and Australia, such as the increasing number of affluent middle class residents, 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. Unfavorable changes in any of these general factors could negatively affect demand for our services and materially and adversely affect our results of operations.

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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:

Brand awareness and market position

We are now a market leader in Hong Kong in the retail securities brokerage industry and a go-to brand for retail securities trading. Our ability to strengthen our brand recognition and maintain our current market position is crucial for us to build and maintain relationships with our users and business partners and revenue growth. We have proven to be a trustworthy and reliable platform for our clients, which enabled us to achieve consistent and high growth in key aspects of our operation, and in turn further solidified our leadership. In order to strengthen our brand recognition and maintain market leadership, we strive to increase the engagement and loyalty of our clients and enhance the competitiveness and attractiveness of our platform by offering superior investing experience, insightful market intelligence and social connectivity. The number of our paying clients increased from 198,382 as of December 31, 2019 to 516,721 as of December 31, 2020, to 1,244,222 as of December 31, 2021 and further to 1,387,146 as of June 30, 2022. As a result, our total client asset balance increased from HK\$87.1 billion as of December 31, 2019 to HK\$285.2 billion as of December 31, 2020, and to HK\$407.8 billion as of December 31, 2021, and further to HK\$433.6 billion (US\$55.3 billion) as of June 30, 2022. We will continue to promote our brand name among our target client groups and enhance our appeal across different demographics.

Trading activities of our client 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 total client asset balance and turnover of trading volume over client assets. The trading volume on our platform increased significantly from 2019 to 2021. The change of the trading volume was primarily driven by our total client asset balance, which significantly impacted our brokerage commission and handling charge income and interest income during the Track Record Period. Our total client asset balance is affected by a number of factors, including, primarily, the number of our paying clients and to a lesser extent, the level of per capita disposable income as well as the engagement and loyalty of our clients. The trading volume on our platform declined year-over-year in the six months ended June 30, 2022 compared to the same period in 2021, primarily due to weak performance of global capital market and declining investor sentiment. We plan to continue to grow our business organically by attracting new clients, retaining existing clients and increasing our total client asset balance, and to improve the turnover of trading volume over client asset by introducing new products and services on our platform and providing high-quality, reliable and convenient online brokerage and ancillary services to investors at low costs. In addition to trading volume, our brokerage commission and handling charge income is also affected by the commission rate we charge. During the Track Record Period, we offered competitive commission rates to drive our growth and profitability.

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Margin financing and securities lending 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 and securities lending businesses have grown rapidly. The increase in our daily average margin financing and securities lending balance has been primarily driven by the increase in the number of margin financing and securities lending clients. The margin financing and securities lending balance is also affected by factors including client asset balance, margin financing and securities lending balance as a percentage of client assets, expansion of international markets and our ability to continue to secure funding and securities from third parties.

The net interest income from our margin financing and securities lending businesses is affected by our margin financing and securities lending balance, as well as annualized interest rates and interest spread we earn from margin financing and securities lending. We have benefited from the increase in client demand for margin financing and securities lending services, which in turn strengthened our bargaining power against third-party funding and securities lenders and allowed us to optimize interest expenses. To continue to expand our margin financing and securities lending businesses, we plan to deepen our cooperation with third-party funding and securities lenders as well as allocate our own capital to increase the funds available. As a publicly listed company, we are perceived as a strong debtor by market and have received a “BBB-” credit rating from S&P Global Ratings as the first online brokerage in the Asia-Pacific region to secure an international rating and the first Hong Kong-based online broker to obtain a standalone investment grade issuer rating according to CIC, which will further diversify our funding sources and improve our funding terms. The market condition may change from time to time and our ability to manage our capital effectively is crucial for our margin financing and securities lending businesses. 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.

We have also been developing and offering innovative solutions for our clients who wish to lend their securities, such as our stock yield enhancement program. Our revenue growth will be affected by our ability to effectively execute these initiatives and increase our margin financing and securities lending balance and interest spread.

Ability to broaden service offerings and expand in various markets

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 and margin financing and securities lending businesses, and as a result, our profitability depends largely on the performance of these businesses. While we expect our brokerage commission and handling charge income and interest income to increase and continue to be a major source of our revenues in the future, we

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also expect to increase the revenue contribution from other businesses with relatively higher profit margins, such as our wealth management product distribution services and corporate services. We also intend to further broaden our financial services footprint and launch new products and services, including more mutual funds, fixed income products, and derivatives, as well as other value-added services including market data and information, social community.

Our great success in the Hong Kong market laid a solid foundation for our international expansion into various markets. We launched *moomoo*, the international version of *Futubull*, in the U.S., Singapore and Australia as our first steps. In particular, *moomoo* has demonstrated broad popularity and robust momentum since its debut in Singapore in March 2021, attracting over 220,000 users and 100,000 paying clients within three months. Further, our platform is fully-licensed to conduct securities brokerage, wealth management product distribution and other financial services across various markets. We hold 51 licenses, registrations and memberships across Hong Kong, Singapore, the U.S., Australia and Europe.

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. In addition, our ability to expand into various markets will enable us to respond to changes in the different markets in terms of client demand and client preferences to remain competitive.

Investment in technology and talent

Our technology is critical for us to retain and attract clients. We have made significant investments into our one-stop financial technology platform, which has evolved into a highly-automated, multi-product, multi-market, closed-loop proprietary 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. Aiming to transform and improve the investing experience for the upcoming generation of investors, we intend to focus on developing a comprehensive range of 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 online retail brokerage 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.

Operating leverage and operating efficiency

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, which enables us to realize cost savings structurally. We have built a secure and scalable brokerage platform that is fully digitalized and supports the full transaction lifecycle from the

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front-end to the back-office through our proprietary cloud-based technology, which in turn allows us to efficiently manage 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.

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, public relations, brand promotion services, ESOP and other corporate services, which in turn generates strong demand for our brokerage and margin financing services from retail clients. The provision of ESOP and other corporate services to our corporate clients is also an innovative and efficient acquisition channel for our brand to reach quality retail investors, which indirectly allow us to expand our presence at a lower cost. The scale, demographics and depth of engagement of our client base also translate to high lifetime values. 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.

IMPACT OF COVID-19 ON OUR OPERATIONS

An outbreak of respiratory illness namely COVID-19, caused by a novel coronavirus, was reported in December 2019 and was subsequently declared as a pandemic by the World Health Organization in March 2020. In an effort to halt the outbreak, governments around the world placed significant restrictions on travel, implemented mandatory quarantine and/or closed certain businesses, work places and facilities.

The ongoing COVID-19 pandemic has disrupted the business operations of many companies worldwide. We have taken a series of measures in response to the outbreak to protect our employees. See “Business — Health, Work Safety, Social Responsibility and Environmental Matters.” Our operations, including our services to our clients and internal control over financial reporting, have not been materially and adversely affected by these measures as we timely implemented our business continuity plan.

Many traditional financial institutions that rely heavily on offline account opening and customer service models have had to suspend the operations at their physical branches as a result of the pandemic, which underscores the merits of a pure online one-stop financial technology platform where clients can enjoy an end-to-end mobile experience for everything from account opening to trade execution, margin lending, mutual fund investments, market news and social interaction.

We witnessed huge market volatility in the global capital markets in 2020, 2021 and the six months ended June 30, 2022. Such volatility has led to new trading account opening, increasing trading velocity and higher net asset inflow, which benefited our operating and financial results for these periods. In the first half of 2022, our total client assets increased by

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6.3% from the year ended December 31, 2021 to HK\$433.6 billion, primarily due to strong net asset inflow across regions. Our paying clients reached 1.38 million as of June 30, 2022, representing 38.6% year-over-year growth. Despite the increased market volatility, our rigorous risk management systems and procedures have prevented us from incurring any material losses in relation to margin financing business, and we had not identified any material COVID-19-related contingencies or impairments as of the Latest Practicable Date. Our business operation and financial performance had not been materially and adversely affected by the COVID-19 pandemic during the Track Record Period and up to the Latest Practicable Date.

While we experienced business growth in 2020 and 2021, we cannot predict whether this will continue at the same level in the future and whether client behavior will continue in a manner that is favorable to us. The improvement in our business and financial performance in 2020, 2021 and the first half of 2022 may not be sustainable. As there is still uncertainty around the duration of the pandemic, we cannot ascertain the potential impact of the pandemic on investor sentiments and the possibility of other effects on our business. In the event that this epidemic cannot be effectively and timely contained, our ability to consistently offer new products and services in the future may be disrupted, which in turn may harm the growth rate and retention of our clients, as well as our financial performance generally. The near-term economic impact of the COVID-19 outbreak is also uncertain.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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 document. 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.

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The consolidated financial statements include the financial statements of our Company, our subsidiaries, our Consolidated Affiliated Entities for which we or a subsidiary of ours is the primary beneficiary. See Note 2 to the Accountant's Report set out in Appendix IA to this document for a description of other significant accounting policies.

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, our VIEs and its subsidiaries 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, costs and expenses during the reported period in the consolidated financial statements and accompanying notes. These accounting estimates reflected in our consolidated financial statements mainly include, but are not limited to, the estimation of the expected usage and the estimated relative standalone selling price of the incentive points and coupons, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, expected credit losses on financial instruments, assessment for impairment of equity method investment, present value for expected future leasing payment, contingency reserve, provision of income tax and valuation allowance for deferred tax asset. Actual results could differ from those estimates.

Revenue Recognition

Brokerage commission and handling charge income

Brokerage commission income earned for executing transactions is accrued on a trade-date basis.

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Handling charge income arise from the services such as clearing and settlement services, subscription, and dividend collection handling services, etc., is accrued on a trade-date basis.

Brokerage commission and handling charge income is recognized at a point in time when the service has been passed to the customer.

Interest income

We earn interest income primarily in connection with our margin financing and securities lending services, IPO financing, bridge loan and deposits with banks, which is recorded on an accrual basis and is included in interest income in the consolidated statements of comprehensive income. Interest income is recognized as it is accrued over time using the effective interest method.

Customer loyalty program

We operate a customer loyalty program to our customers that offers various incentives in the form of incentive points and coupons for redemption of free or discounted goods or services.

For the incentives generated from current sales transaction, we defer a portion of commission income with corresponding liability reflected as contract liability attributable to the incentives. The contract liability is determined by management based on the expected usage of the incentive points and coupons, and their estimated relative standalone selling price. Significant judgment was made by management in determining the expected usage and estimated relative standalone selling price of the incentive points and coupons, derived from historical trading volume, commission rates and redemption patterns, and an evaluation as to whether historical activities are representative of the expected future activities.

For the incentives offered for future sales transaction, we net a portion of brokerage commission income attributable to the incentives when points or coupons are actually redeemed.

For the incentives not offered for future sales transaction, we considers them as a payment of other distinct goods that would be granted to clients. Such incentives are accounted for as selling and marketing expense with corresponding liability reflected as other liability on the consolidated balance sheet.

Current Expected Credit Losses

Prior to January 1, 2020, we applied incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred and the identified impairments loss was immaterial.

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On January 1, 2020, we adopted FASB ASC Topic 326 — “Financial Instruments — Credit Losses” (“**ASC Topic 326**”) which replaces the incurred loss methodology with the current expected credit loss (“**CECL**”) methodology. The new guidance applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets.

We adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no material impact on our retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP. Our in-scope assets are primarily loans and advances that are collateralized by client securities and the collateral is required to be maintained at specified minimum levels at all times. We monitor margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. We apply the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient, when we reasonably expect that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral’s fair value is greater than the amortized cost of the financial asset. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. For the year ended December 31, 2020, 2021 and the six months ended June 30, 2021 and 2022, expected credit loss expenses of HK\$9.1 million, HK\$3.2 million, HK\$8.8 million and HK\$7.8 million (US\$1.0 million), respectively, resulting from the assessment of credit losses for the loans and advances under ASC Topic 326 at period-end were recognized in “Others, net” in the consolidated statements of comprehensive income.

An allowance for credit losses on other financial assets, including receivables from clients, brokers, clearing organizations and fund management companies and fund distributors, is estimated based on the aging of these financial assets. Receivables from clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within a few days from the trade date. Because these receivables involve customers who have no recent history of default, and the settlement periods are usually short, the credit risk arising from receivables from clients is considered low. In respect of the receivables from brokers, clearing organizations and fund management companies and fund distributors, the management considers that these receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation. As a result, the allowance for credit losses for other financial assets were immaterial for all periods presented.

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Leases

Summary of impact of applying ASC 842

On January 1, 2019, we adopted FASB ASC Topic 842, “Leases,” (“**ASC Topic 842**”) which requires that a lessee recognize in the consolidated balance sheet a lease liability and a corresponding right-of-use asset, including for those leases that we currently classify as operating leases. The right-of-use asset and the lease liability was initially measured using the present value of the remaining lease payments. ASC Topic 842 was implemented using a modified retrospective approach which resulted in no cumulative-effect adjustment in the opening balance of retained earnings as of January 1, 2019. As a result, the consolidated balance sheet prior to January 1, 2019 was not restated and continues to be reported under FASB ASC Topic 840, “Leases,” (“**ASC Topic 840**”), which did not require the recognition of a right-of-use asset or lease liability for operating leases.

We review all relevant contracts to determine if the contract contains a lease at its inception date. In an operating lease, we obtains control of only the use of the underlying asset, but not the underlying asset itself. An operating lease is recognized as a right-of-use asset with a corresponding liability at the date which the leased asset is available for our use. Our operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. Our Company makes an accounting policy election not to separate non-lease components to measure the lease liability and lease asset.

The lease liability is initially measured at the present value of the future lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. The lease payments are discounted using the rate implicit in the lease or, if not readily determinable, our secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of debt issued with a similar risk profile as our Company and a duration similar to the lease term. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

After commencement of the operating lease, we recognize lease expenses on a straight-line basis over the lease term. The subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement. The right-of-use asset is subsequently measured at cost less accumulated amortization and any impairment provision. The amortization of the right-of-use asset represents the difference between the straight-line lease expense and the accretion of interest on the lease liability each period. The interest amount is used to accrete the lease liability and to amortize the right-of-use asset. There is no amount recorded as interest expense.

All of our leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers and other facilities.

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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, restricted cash, receivables from and payables to clients, brokers, clearing organizations and fund management companies and fund distributors, accrued interest receivable, accrued interest payable, amounts due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Term deposits, loans and advances, borrowings, securities purchased under agreements to resell, securities sold under agreements to repurchase and operating lease liabilities are carried at amortized cost. The carrying amount

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of term deposits, loans and advances, borrowings and operating lease liabilities approximate their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Short-term investments are measured at fair value.

Our non-financial assets, such as operating lease right-of-use assets, equity method investment, property and equipment and intangible assets, would be measured at fair value only if they were determined to be impaired.

Share-Based Compensation

We follow ASC 718 to determine whether a share option and a restricted share unit should be classified and accounted for as a liability award or equity award. All share-based awards to employees and directors classified as equity awards, such as stock options and restricted share units, 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 and restricted share units 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 share options and restricted share units.

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.

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 shown in the Accountant's Report in Appendix IA to this document.

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RESULTS OF OPERATIONS

The table below summarizes our results of operations and as percentages of our total revenue for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,				
	2019		2020		2021		2021		2022		
	Amount	% of	Amount	% of	Amount	% of	Amount	% of	Amount	% of	
HK\$	total	HK\$	total	HK\$	total	HK\$	total	HK\$	US\$	total	
<i>(in thousands except for percentages)</i>											
<i>(unaudited)</i>											
Revenues											
Brokerage commission and handling charge income	511,365	48.2	1,990,138	60.1	3,913,027	55.0	2,122,679	56.1	2,001,246	255,027	59.1
Interest income	464,903	43.8	965,627	29.2	2,518,198	35.4	1,268,940	33.6	1,195,661	152,368	35.3
Other income	85,287	8.0	355,057	10.7	684,095	9.6	389,842	10.3	190,821	24,317	5.6
Total revenues	1,061,555	100.0	3,310,822	100.0	7,115,320	100.0	3,781,461	100.0	3,387,728	431,712	100.0
Costs											
Brokerage commission and handling charge expenses	(100,550)	(9.5)	(361,486)	(10.9)	(572,159)	(8.0)	(359,002)	(9.5)	(183,221)	(23,349)	(5.4)
Interest expenses	(89,238)	(8.4)	(185,090)	(5.6)	(376,902)	(5.3)	(246,967)	(6.5)	(65,827)	(8,389)	(2.0)
Processing and servicing costs	(91,916)	(8.7)	(149,378)	(4.5)	(257,003)	(3.6)	(116,024)	(3.1)	(186,799)	(23,805)	(5.5)
Total costs	(281,704)	(26.6)	(695,954)	(21.0)	(1,206,064)	(16.9)	(721,993)	(19.1)	(435,847)	(55,543)	(12.9)
Total gross profit	779,851	73.4	2,614,868	79.0	5,909,256	83.1	3,059,468	80.9	2,951,881	376,169	87.1
Operating expenses											
Research and development expenses	(262,345)	(24.7)	(513,283)	(15.5)	(805,325)	(11.3)	(310,787)	(8.2)	(574,174)	(73,169)	(16.9)
Selling and marketing expenses	(164,701)	(15.5)	(385,320)	(11.6)	(1,392,070)	(19.6)	(652,036)	(17.3)	(507,235)	(64,639)	(15.0)
General and administrative expenses	(164,850)	(15.5)	(248,404)	(7.5)	(529,048)	(7.4)	(174,365)	(4.6)	(388,532)	(49,512)	(11.5)
Total operating expenses	(591,896)	(55.7)	(1,147,007)	(34.6)	(2,726,443)	(38.3)	(1,137,188)	(30.1)	(1,469,941)	(187,320)	(43.4)
Others, net	(9,462)	(0.9)	(17,238)	(0.5)	2,478	0.0	(19,593)	(0.5)	(115,819)	(14,759)	(3.4)
Income before income tax expenses and share of loss from equity method investment	178,493	16.8	1,450,623	43.8	3,185,291	44.8	1,902,687	50.3	1,366,121	174,090	40.3
Income tax expenses	(12,286)	(1.2)	(124,793)	(3.8)	(375,081)	(5.3)	(206,497)	(5.4)	(143,198)	(18,248)	(4.2)
Share of loss from equity method investment	(543)	(0.1)	(307)	0.0	-	0.0	-	0.0	(9,398)	(1,198)	(0.3)
Net income	165,664	15.5	1,325,523	40.0	2,810,210	39.5	1,696,190	44.9	1,213,525	154,644	35.8

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

During the Track Record Period, 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 indicated:

	For the Year ended December 31,						For the Six Months ended June 30,					
	2019		2020		2021		2021		2022			
	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue HK\$	% of total Amount revenue US\$	% of total Amount revenue US\$	% of total Amount revenue US\$
	<i>(in thousands except for percentages)</i>											
	<i>(unaudited)</i>											
Brokerage commission and handling charge income	511,365	48.2	1,990,138	60.1	3,913,027	55.0	2,122,679	56.1	2,001,246	255,027	59.1	
Interest income	464,903	43.8	965,627	29.2	2,518,198	35.4	1,268,940	33.6	1,195,661	152,368	35.3	
Other income	85,287	8.0	355,057	10.7	684,095	9.6	389,842	10.3	190,821	24,317	5.6	
Total	1,061,555	100.0	3,310,822	100.0	7,115,320	100.0	3,781,461	100.0	3,387,728	431,712	100.0	

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 services by trading equities and equity-linked derivatives on behalf of our clients. Handling charge income primarily consists of fees from clearing and settlement services, subscription and dividend collection handling services. Our commission and fee rates remained relatively stable with slight increase and our trading volume generally increased throughout the Track Record Period. The slight increase in our commission and fee rates was due to (i) the decrease in the average share price under our commission-per-share pricing model for securities on major exchanges in the U.S., which results in higher blended commission rate as applied based on trading volume, and (ii) the higher contributions from our clients' derivatives trading. Brokerage commission and handling charge income is recognized at a point in time when the service has been passed to the customer. See “— Significant Accounting Policies and Estimates — Revenue recognition.”

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The following table sets forth the components of our brokerage commission and handling charge income by type of products traded during the Track Record Period:

	For the Year ended December 31,			For the Six Months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>					
	<i>(unaudited)</i>					
Securities and options						
brokerage	480,677	1,878,038	3,688,149	2,024,838	1,810,496	230,719
Futures brokerage	37	32,530	130,775	53,857	154,060	19,632
IPO brokerage	27,981	70,846	75,571	38,384	10,316	1,315
Others ⁽¹⁾	2,670	8,724	18,532	5,600	26,374	3,361
Total	511,365	1,990,138	3,913,027	2,122,679	2,001,246	255,027

Note:

- (1) Others include (i) handling fees, such as dividend collection fees, equity interest collection fees, corporate action handling fees, (ii) bond brokerage commission and (iii) service fees, such as ESOP handling charges.

The revenue generated from our securities and options brokerage increased from HK\$480.7 million in 2019, to HK\$1,878.0 million in 2020 and further to HK\$3,688.1 million 2021, primarily due to the increase in our securities and options trading volume which was driven by the growth of our paying client base and their increased trading activities. However, the revenue generated from our securities and options brokerage decreased from HK\$2,024.8 million for the first six months ended June 30, 2021 to HK\$1,810.5 million (US\$230.7 million) for the first six months ended June 30, 2022, primarily because the securities and options trading volume declined compared to the same period in 2021 when market peaked.

The revenue generated from our futures brokerage increased from HK\$37 thousand in 2019, to HK\$32.5 million in 2020, and further to HK\$130.8 million in 2021, and from HK\$53.9 million for the six months ended June 30, 2021 to HK\$154.1 million (US\$19.6 million) for the six months ended June 30, 2022. The overall increase in revenue generated from our futures brokerage throughout the Track Record Period was generally in line with the expansion of our futures trading services and the increasing needs of investors for hedging instruments when the market was highly volatile.

The revenue generated from our IPO brokerage increased from HK\$28.0 million in 2019, to HK\$70.8 million in 2020 and further to HK\$75.6 million 2021, primarily due to the expansion of our IPO subscription services, where we charge commission and fee rates to the newly subscribed shares. However, the revenue generated from our IPO brokerage decreased

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from HK\$38.4 million for the six months ended June 30, 2021 to HK\$10.3 million (US\$1.3 million) for the six months ended June 30, 2022, primarily due to the decrease in the overall number of IPO transactions in the U.S. and Hong Kong markets in the six months ended June 30, 2022.

Our income from our other products and services increased from HK\$2.7 million in 2019, to HK\$8.7 million in 2020, and further to HK\$18.5 million in 2021, and from HK\$5.6 million for the six months ended June 30, 2021 to HK\$26.4 million (US\$3.4 million) for the six months ended June 30, 2022. The increase in revenue from our other products and services was due to an increase in income from ESOP handling charges, generally in line with the expansion of our ESOP solution services during the Track Record Period.

Interest income

Interest income primarily consists of interest income from (i) margin financing, (ii) bank deposit, (iii) IPO financing, namely arranging the financing for our clients in connection with their subscriptions in initial public offerings, and (iv) securities lending services. Interest income is recognized as it is accrued over time using the effective interest method. See “— Significant Accounting Policies and Estimates — Revenue recognition.”

The following table sets forth the components of our interest income by product type during the Track Record Period:

	For the Year ended December 31,			For the Six months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>					
	<i>(unaudited)</i>					
Interest income						
Margin financing	221,648	497,975	1,720,473	786,095	766,722	97,706
Securities lending	37,202	73,792	397,505	233,929	182,124	23,209
Bank deposit	187,223	208,556	197,390	88,916	196,807	25,080
Bridge loan	6,172	1,078	1,872	–	48,235	6,147
IPO financing	12,658	184,226	200,567	160,000	750	96
Other financing ⁽¹⁾	–	–	391	–	1,023	130
Total	464,903	965,627	2,518,198	1,268,940	1,195,661	152,368

Note:

(1) Other financing mainly includes the securities purchased under agreements to resell.

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The increase in interest income generated from our margin financing business was generally in line with the increase in the daily average margin financing balances throughout the Track Record Period. The daily average margin financing balances increased from HK\$3.7 billion in 2019, to HK\$8.4 billion in 2020, and further to HK\$28.6 billion in 2021. However, the daily average margin financing balances decreased from HK\$26.9 billion for the six months ended June 30, 2021 to HK\$25.5 billion (US\$3.2 billion) for the six months ended June 30, 2022.

The increase in interest income generated from securities lending is generally in line with the expansion of our securities lending business. Our clients are generally required to pay the accrued securities lending fees at the end of each month, which are automatically deducted from our clients' accounts. As the daily average securities lending balances increased from 2019 to 2021, the interest income generated therefrom increased. However, as the underlying interest rates for securities lending decreased from the six months ended June 30, 2021 to the same period in 2022 when the trading activities were slower, the interest income generated therefrom decreased from HK\$233.9 million for the first six months of 2021 to HK\$182.1 million (US\$23.2 million) for the same period in 2022.

The interest income generated from bank deposits is generally affected by the interest rates and the amount of cash held on behalf of clients that are placed in bank deposits. The interest income generated from bank deposits generally increased throughout the Track Record Period, with an increase from HK\$88.9 million in the first six months of 2021 to HK\$196.8 million (US\$25.1 million) in the same period in 2022, primarily due to the increase in interest rates, which was partially offset by the decrease in daily average balance of client cash deposits.

The interest income generated from bridge loans generally decreased from 2019 to 2021, primarily because we reduced the grants of bridge loans in 2021. For the six months ended June 30, 2022, we recorded interest income generated from bridge loans of HK\$48.2 million (US\$6.1 million), primarily as a result of certain bridge loans granted to clients.

The interest income generated from IPO financing is generally affected by the expansion of our IPO financing business as well as the overall number of IPO transactions in the capital market. As our IPO financing business expanded from 2019 to 2021, the interest income generated therefrom increased. However, as the overall number of IPO transactions in the capital market decreased sharply in the six months ended June 30, 2022, compared to the same period in 2021, the interest income generated therefrom decreased from HK\$160.0 million for the first six months of 2021 to HK\$0.8 million (US\$95.6 thousand) for the same period in 2022.

Other income

Other income primarily consists of certain income that is recognized at a point in time (namely, (i) currency exchange service income, (ii) market information and data income, (iii) underwriting fee income and (iv) IPO subscription service charge income), and certain income

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that is recognised over time (namely, (i) funds distribution service income, and (ii) enterprise public relations service charge income). We generate IPO subscription service charge income 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 underwriting fee income in our investment banking business primarily by providing equity sub-underwriting to corporate issuers. We generate enterprise public relations service charge income by providing institutional clients with public relations and investor relations services, including distributing company information and news and providing communication channels with retail investors. We generate funds distribution service income from our wealth management product distribution business. We generate market information and data income primarily by providing fee-based market data services to users and clients.

Costs

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

	For the Year ended December 31,						For the Six Months ended June 30,					
	2019		2020		2021		2021		2022			
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
	HK\$		HK\$	HK\$		HK\$		HK\$	US\$			
	<i>(in thousands except for percentages)</i>											
	<i>(unaudited)</i>											
Brokerage commission and handling charge expenses	100,550	35.7	361,486	51.9	572,159	47.4	359,002	49.7	183,221	23,349	42.0	
Interest expenses	89,238	31.7	185,090	26.6	376,902	31.3	246,967	34.2	65,827	8,389	15.1	
Processing and servicing costs	91,916	32.6	149,378	21.5	257,003	21.3	116,024	16.1	186,799	23,805	42.9	
Total	281,704	100.0	695,954	100.0	1,206,064	100.0	721,993	100.0	435,847	55,543	100.0	

Brokerage commission and handling charge expenses

Brokerage commission and handling charge expenses consist of fees charged by executing brokers 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.

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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 business, securities borrowing and lending service and IPO financing businesses. As we also procure external funding for our margin financing, securities lending and IPO financing businesses and thus subject to the fluctuations in market interest rates, the interest expenses are affected by the interest rates charged by these counterparties.

Processing and servicing costs

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

Gross profit and gross profit margin

Our gross profit margin for a particular period represents the amount of gross profit divided by the amount of our total revenue during the period. Our gross profit margin generally increased from 73.4% in 2019 to 79.0% in 2020 and further to 83.1% in 2021, and increased from 80.9% for the six months ended June 30, 2021 to 87.1% for the six months ended June 30, 2022, respectively. Our gross profit margin is affected by the change in the level of costs relative to the revenue we generate during the same period.

The table below sets forth our gross profit and gross profit margin for the periods indicated:

	For the Year ended December 31,			For the Six Months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands except for percentages)</i>					
	<i>(unaudited)</i>					
Gross profit	779,851	2,614,868	5,909,256	3,059,468	2,951,881	376,169
Gross profit margin	<u>73.4%</u>	<u>79.0%</u>	<u>83.1%</u>	<u>80.9%</u>	<u>87.1%</u>	

Our gross profit margin is largely affected by the underlying commission and fee rates for the brokerage commission and handling charge expenses and the underlying interest rates for the interest expenses.

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The table below sets forth our gross profit⁽¹⁾ and gross profit margin by certain type of revenue for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,				
	2019		2020		2021		2021		2022		
	Gross profit	Gross Margin	Gross profit	Gross Margin	Gross profit	Gross Margin	Gross profit	Gross Margin	Gross profit		Gross Margin
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	US\$	%
	<i>(in thousands except for percentages)</i>										
	<i>(unaudited)</i>										
Brokerage commission and handling charge . . .	410,815	80.3	1,628,652	81.8	3,340,868	85.4	1,763,677	83.1	1,818,025	231,678	90.8
Interest	375,665	80.8	780,537	80.8	2,141,296	85.0	1,021,973	80.5	1,129,834	143,979	94.5

Brokerage

commission
and handling

charge . . . 410,815 80.3 1,628,652 81.8 3,340,868 85.4 1,763,677 83.1 1,818,025 231,678 90.8
Interest 375,665 80.8 780,537 80.8 2,141,296 85.0 1,021,973 80.5 1,129,834 143,979 94.5

Note:

(1) This does not account for other income and processing and servicing costs.

Brokerage commission and handling charge income

Our gross profit in relation to brokerage commission and handling charge⁽¹⁾ increased from HK\$410.8 million in 2019, to HK\$1,628.7 million in 2020 and further to HK\$3,340.9 million 2021, and increased from HK\$1,763.7 million in the six months ended June 30, 2021 to HK\$1,818.0 million (US\$231.7 million) in the six months ended June 30, 2022. The increase was in line with the increase in trading volume facilitated on our platform, which was driven by the growth of our paying client base and their increased trading activities.

Our gross profit margin for brokerage commission and handling charge⁽¹⁾ in 2019, 2020, 2021, the six months ended June 30, 2021, and the six months ended June 30, 2022 remained relatively stable between 80-91%, respectively. The effective commission rate was 5.9 basis points, 5.7 basis points, 6.4 basis points, 6.0 basis points and 7.5 basis points in 2019, 2020, 2021, the six months ended June 30, 2021 and 2022, respectively. Whilst our commission and fee rates remained relatively stable with slight increase throughout the Track Record Period, our costs fluctuated from time to time based on the changes in (i) fee rates charged by executing brokers as we transacted with them, (ii) fee rates charged by executing brokers for our use of their clearing and settlement systems and (iii) fee rates charged by commercial banks for providing clearing and settlement services in connection with IPO subscriptions.

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Interest income

Our gross profit in relation to our interest income⁽²⁾ increased from HK\$375.7 million in 2019, to HK\$780.5 million in 2020 and further to HK\$2,141.3 million 2021, and increased from HK\$1,022.0 million in the six months ended June 30, 2021 to HK\$1,129.8 million (US\$144.0 million) in the six months ended June 30, 2022. The increase was mainly attributable to the expansion of our margin financing business, which was primarily driven by the increase in the daily average margin financing balances throughout the Track Record Period.

Our gross profit margin for interest income⁽²⁾ improved generally from 2019 to 2021, and increased to 94.5% for the six months ended June 30, 2022. This was primarily because of the increased portion of funding from our own capital, the change in the underlying interest rates for our borrowings from commercial banks, other licensed financial institutions and other parties to fund our margin financing business, securities borrowing and lending service and IPO financing businesses. As the interest rates charged to our clients remained relatively stable throughout the Track Record Period, the gross profit margins for interest income were affected by the fluctuations in these interest rates charged by the counterparties.

Notes:

- (1) Equals net brokerage commission and handling charge income divided by total brokerage commission and handling charge income. Net brokerage commission and handling charge income is the difference between the total brokerage commission and handling charge income and our brokerage commission and handling charge expenses.
- (2) Equals net interest income divided by total interest income. Net interest income is the difference between the total interest income and our interest expenses.

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Operating expenses

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

	For the Year ended December 31,						For the Six Months ended June 30,				
	2019		2020		2021		2021		2022		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
	HK\$		HK\$	HK\$		HK\$		HK\$	US\$		
	<i>(in thousands except for percentages)</i>										
	<i>(unaudited)</i>										
Research and development expenses	262,345	44.3	513,283	44.7	805,325	29.5	310,787	27.3	574,174	73,169	39.1
Selling and marketing expenses	164,701	27.8	385,320	33.6	1,392,070	51.1	652,036	57.3	507,235	64,639	34.5
General and administrative expenses	164,850	27.9	248,404	21.7	529,048	19.4	174,365	15.4	388,532	49,512	26.4
Total	591,896	100.0	1,147,007	100.0	2,726,443	100.0	1,137,188	100.0	1,469,941	187,320	100.0

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, as well as 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, expenses for third-party professional agents, costs associated with use of facilities and equipment and other general corporate related expenses.

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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, such as Futu Securities (Hong Kong) Limited, Futu Financial Limited, Futu Lending Limited, Futu Network Technology Limited and Futu International Hong Kong, are subject to Hong Kong profit tax on their profits arising from their business operations carried out in Hong Kong. Hong Kong profits tax for a corporation from the year of assessment 2018/2019 onwards is generally 8.25% on assessable profits up to HK\$2.0 million; and 16.5% on any part of assessable profits over HK\$2.0 million. Under the Hong Kong Inland Revenue Ordinance, profits that we derive from sources outside of Hong Kong are generally not subject to Hong Kong profits tax. In addition, payments of dividends from our Hong Kong subsidiaries to us are not subject to any Hong Kong withholding tax.

PRC

Generally, our PRC subsidiaries, VIEs and its subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. Our wholly-owned PRC subsidiary, Futu Network Technology (Shenzhen) Co., Ltd., and our VIE, Shenzhen Futu, are recognized as “high and new technology enterprises” and eligible for a preferential tax rate of 15% with a valid period of three years starting from 2019 and 2020, respectively. 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 WFOE in China to non-PRC-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 relevant income is not effectively connected with the establishment or place of business, will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the 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 Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) and receives approval from the relevant

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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 abovementioned approval requirement has been abolished, but a Hong Kong entity is still required to file an application package with the relevant tax authority, and settle any overdue taxes if the preferential tax rate of 5% is denied based on the subsequent review of the application package by such authority.

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 Our Presence 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.”

Singapore

Our subsidiaries incorporated in Singapore are subject to an income tax rate of 17% for taxable income earned in Singapore. Singapore does not impose a withholding tax on dividends for resident companies. In the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022, we did not incur any Singapore income tax as there was no estimated assessable profit that was subject to Singapore income tax.

The United States

The Tax Cuts and Jobs Act of 2017 significantly revised the U.S. corporate income tax law. Changes include a reduction in the federal corporate tax, changes to operating loss carry-forwards and carry-backs, and a repeal of the corporate alternative minimum tax. This legislation resulted in a reduction of the U.S. federal corporate income tax rates from a maximum of 35% to 21%, to which our subsidiaries incorporated in the United States are subject.

In addition, the Biden administration has indicated an intention to enact tax legislation that could impact the taxation of our subsidiaries incorporated in the United States. No assurance can be given as to whether, when, or in what form, such federal income tax laws applicable to our subsidiaries in the United States may be enacted.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Revenues

Our revenues decreased by 10.4% from HK\$3,781.5 million in the six months ended June 30, 2021 to HK\$3,387.7 million (US\$431.7 million) in the six months ended June 30, 2022.

Brokerage commission and handling charge income. Our brokerage commission and handling charge income decreased by 5.7% from HK\$2,122.7 million in the six months ended June 30, 2021 to HK\$2,001.2 million (US\$255.0 million) in the six months ended June 30, 2022. The decrease was primarily due to a decline in trading volume compared to the same period in 2021 when market peaked, which was partially offset by an increase in the blended commission rate as applied based on trading volume from 6.0 basis points to 7.5 basis points.

Interest income. Interest income decreased by 5.8% from HK\$1,268.9 million in the six months ended June 30, 2021 to HK\$1,195.7 million (US\$152.4 million) in the six months ended June 30, 2022. The decrease was mainly due to (i) lower interest income from margin financing and securities borrowing and lending business, resulting from the decrease in daily average margin financing and securities lending balance by 1.9% from HK\$27.9 billion in the six months ended June 30, 2021 to HK\$27.3 billion in the six months ended June 30, 2022, and (ii) lower IPO financing interest income.

Interest income derived from margin financing and securities lending decreased by 7.0% from HK\$1,020.0 million in the six months ended June 30, 2021 to HK\$948.8 million (US\$120.9 million) in the six months ended June 30, 2022, which was mainly due to the decrease in daily average margin financing and securities lending balance from the six months ended June 30, 2021 to the same period in 2022 when the trading activities were slower. In the first half of 2021 when trading activities were more active, there was higher volume of margin financing and securities lending, resulting in higher interest income derived therefrom. Interest income derived from bank deposit increased by 121.4% from HK\$88.9 million in the six months ended June 30, 2021 to HK\$196.8 million (US\$25.1 million) in the six months ended June 30, 2022, which was mainly attributable to the increase in market interest rates, partially offset by the decrease in daily average balance of client cash deposit. Interest income derived from IPO financing decreased by 99.5% from HK\$160.0 million in the six months ended June 30, 2021 to HK\$0.8 million (US\$95.6 thousand) in the six months ended June 30, 2022, which was mainly attributable to a decrease in the overall number of IPO transactions in the capital market in the six months ended June 30, 2022.

Other income. Our other income decreased by 51.1% from HK\$389.8 million in the six months ended June 30, 2021 to HK\$190.8 million (US\$24.3 million) in the six months ended June 30, 2022. The decrease was primarily due to lower IPO financing service charge income and underwriting fee income.

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Costs

Our total costs decreased by 39.6% from HK\$722.0 million in the six months ended June 30, 2021 to HK\$435.8 million (US\$55.5 million) in the six months ended June 30, 2022.

Brokerage commission and handling charge expenses. Our brokerage commission and handling charge expenses decreased by 49.0% from HK\$359.0 million in the six months ended June 30, 2021 to HK\$183.2 million (US\$23.3 million) in the six months ended June 30, 2022. Brokerage commission expenses declined by a wider margin than brokerage commission income primarily due to cost savings from our U.S. self-clearing business and an upgraded service package with our U.S. clearing house.

Interest expenses. Our interest expenses decreased by 73.4% from HK\$247.0 million in the six months ended June 30, 2021 to HK\$65.8 million (US\$8.4 million) in the six months ended June 30, 2022. The decrease in interest expenses was primarily due to (i) lower margin and IPO financing interest expenses due to a decrease in our interest bearing borrowings balances and (ii) lower interest expenses associated with our securities borrowing and lending business due to slower trading activities.

Processing and servicing costs. Our processing and servicing costs increased by 61.0% from HK\$116.0 million in the six months ended June 30, 2021 to HK\$186.8 million (US\$23.8 million) in the six months ended June 30, 2022. The increase was primarily due to higher cloud service fees to support international market expansion and process a higher number of concurrent trades.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our total gross profit decreased by 3.5% from HK\$3,059.5 million in the six months ended June 30, 2021 to HK\$2,951.9 million (US\$376.2 million) in the six months ended June 30, 2022. Our gross profit margin increased from 80.9% in the six months ended June 30, 2021 to 87.1% in the six months ended June 30, 2022, primarily attributable to cost savings from our U.S. self-clearing business and an upgraded service package with our U.S. clearing house and higher operating leverage as a result of our larger business scale.

Operating expenses

Our total operating expenses increased by 29.3% from HK\$1,137.2 million in the six months ended June 30, 2021 to HK\$1,469.9 million (US\$187.3 million) in the six months ended June 30, 2022.

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Research and development expenses. Our research and development expenses increased by 84.7% from HK\$310.8 million in the six months ended June 30, 2021 to HK\$574.2 million (US\$73.2 million) in the six months ended June 30, 2022. The increase was primarily due to an increase in research and development headcount to build U.S. clearing capabilities and support new product offerings in existing and new markets.

Selling and marketing expenses. Selling and marketing expenses decreased by 22.2% from HK\$652.0 million in the six months ended June 30, 2021 to HK\$507.2 million (US\$64.6 million) in the six months ended June 30, 2022. The decrease was primarily due to lower overall marketing spending amid weak market sentiments.

General and administrative expenses. Our general and administrative expenses increased by 122.8% from HK\$174.4 million in the six months ended June 30, 2021 to HK\$388.5 million (US\$49.5 million) in the six months ended June 30, 2022. The increase was primarily due to an increase in headcount for general and administrative personnel.

Income tax expenses

We recorded income tax expenses of HK\$143.2 million (US\$18.2 million) in the six months ended June 30, 2022, compared to HK\$206.5 million in the six months ended June 30, 2021, primarily due to decrease in our income before income tax expenses.

Net income and net income margin

As a result of the foregoing, we recorded net income of HK\$1,213.5 million (US\$154.6 million) and net income margin at 35.8% in the six months ended June 30, 2022, compared to HK\$1,696.2 million and net income margin at 44.9% in the six months ended June 30, 2021.

Year ended December 31, 2021 compared to year ended December 31, 2020

Revenues

Our total revenues increased by 114.9% from HK\$3,310.8 million in 2020 to HK\$7,115.3 million in 2021.

Brokerage commission and handling charge income. Our brokerage commission and handling charge income increased by 96.6% from HK\$1,990.1 million in 2020 to HK\$3,913.0 million in 2021. The increase was mainly attributable to the 77.2% year-over-year increase in trading volume and higher blended commission rate as applied based on trading volume. The increase in our trading volume from HK\$3,463.6 billion in 2020 to HK\$6,138.9 billion in 2021 was primarily driven by the growth of our paying client base. The number of our paying clients was 1,244,222 as of December 31, 2021, which represented a 140.8% increase from 516,721 as of December 31, 2020. The blended commission rate in terms of trading volume increased from 5.7 basis points in 2020 to 6.4 basis points in 2021.

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Interest income. Our interest income increased by 160.8% from HK\$965.6 million in 2020 to HK\$2,518.2 million in 2021. Interest income derived from margin financing increased by 245.5% from HK\$498.0 million in 2020 to HK\$1,720.5 million in 2021, which was mainly attributable to the increase in daily average margin financing balance by 240.5% from HK\$8.4 billion in 2020 to HK\$28.6 billion in 2021. Interest income derived from securities lending increased by 438.6% from HK\$73.8 million in 2020 to HK\$397.5 million in 2021, which was mainly attributable to higher contribution from our securities lending business with financial institutions as a result of larger business scale. Interest income derived from IPO financing increased by 8.9% from HK\$184.2 million in 2020 to HK\$200.6 million in 2021, which was mainly attributable to an active Hong Kong IPO market in 2021.

Other income. Our other income increased by 92.6% from HK\$355.1 million in 2020 to HK\$684.1 million in 2021. The increase was primarily due to an increase in currency exchange service income, enterprise public relationship service charge income and underwriting fee income.

Costs

Our total costs increased by 73.3% from HK\$696.0 million in 2020 to HK\$1,206.1 million in 2021.

Brokerage commission and handling charge expenses. Our brokerage commission and handling charge expenses increased by 58.3% from HK\$361.5 million in 2020 to HK\$572.2 million in 2021. The increase was primarily due to the growth of our trading volume. However, the expenses did not grow in tandem with brokerage commission and handling charges income due to an upgraded service package with our U.S. clearing house.

Interest expenses. Our interest expenses increased by 103.6% from HK\$185.1 million in 2020 to HK\$376.9 million in 2021. The increase in interest expenses was primarily due to higher margin financing interest expenses and higher expenses associated with our securities lending business. Interest expenses for margin financing did not rise in tandem with margin financing interest income due to lower funding costs for the year, which were attributable to the decreasing trend of Hong Kong Interbank Offered Rates (HIBOR).

Processing and servicing costs. Our processing and servicing costs increased by 72.0% from HK\$149.4 million in 2020 to HK\$257.0 million in 2021. The increase was primarily due to the increase in cloud service fees and data transmission fees to enhance our IT infrastructure.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our total gross profit increased by 126.0% from HK\$2,614.9 million in 2020 to HK\$5,909.3 million in 2021. Our gross profit margin increased from 79.0% in 2020 to 83.1% in 2021, primarily attributable to an upgraded service package with our U.S. clearing house and higher operating leverage as a result of our larger business scale.

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Operating expenses

Our total operating expenses increased by 137.7% from HK\$1,147.0 million in 2020 to HK\$2,726.4 million in 2021.

Research and development expenses. Our research and development expenses increased by 56.9% from HK\$513.3 million in 2020 to HK\$805.3 million in 2021. The increase was primarily due to an increase in research and development headcount to support new product offerings, build U.S. clearing capabilities for our self-clearing business, and provide more customized products in international markets.

Selling and marketing expenses. Our selling and marketing expenses increased by 261.3% from HK\$385.3 million in 2020 to HK\$1,392.1 million in 2021. The increase was primarily due to higher branding and marketing expenses in 2021, especially in international markets in particular, Singapore and the United States. As a result of our enhanced marketing efforts, *moomoo* has demonstrated broad popularity and robust momentum since its debut in Singapore in March 2021, attracting over 220,000 users and 100,000 paying clients within three months. Such spending in sales and marketing efforts is in line with our expansion plans in the international markets, which are still at the early stage of development.

General and administrative expenses. Our general and administrative expenses increased by 113.0% from HK\$248.4 million in 2020 to HK\$529.0 million in 2021. The increase was primarily due to an increase in headcount for general and administrative personnel.

Income tax expenses

We recorded income tax expenses of HK\$375.1 million in 2021, compared to HK\$124.8 million in 2020, primarily due to the 119.6% year-over-year increase in our income before income tax expenses.

Net income and net income margin

As a result of the foregoing, we recorded net income of HK\$2,810.2 million and net income margin at 39.5% in 2021, compared to HK\$1,325.5 million and net income margin at 40.0% in 2020.

Year ended December 31, 2020 compared to year ended December 31, 2019

Revenues

Our revenues increased by 211.9% from HK\$1,061.6 million in 2019 to HK\$3,310.8 million in 2020.

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Brokerage commission and handling charge income. Our brokerage commission and handling charge income increased by 289.1% from HK\$511.4 million in 2019 to HK\$1,990.1 million in 2020. The increase was mainly attributable to the 296.9% year-over-year growth of total trading volume from HK\$872.7 billion in 2019 to HK\$3,463.6 billion in 2020. The increase in our total trading volume was primarily driven by the growth of our paying client base and their increased trading activities. The number of our paying clients was 516,721 as of December 31, 2020, which represents a 160.5% increase from 198,382 as of December 31, 2019. On average, a client who traded in 2020 executed over 189 trades with a total trading volume of HK\$7.6 million, compared to over 167 trades with a total trading volume of HK\$5.6 million in 2019. The turnover of trading volume over client assets increased from 12.6 in 2019 to 18.6 in 2020.

Interest income. Our interest income increased by 107.7% from HK\$464.9 million in 2019 to HK\$965.6 million in 2020. Interest income derived from margin financing and securities lending increased by 120.9% from HK\$258.9 million in 2019 to HK\$571.8 million in 2020, which was mainly attributable to the increase in daily average margin financing and securities lending balance by 121.8% from HK\$4,209.2 million in 2019 to HK\$9,335.5 million in 2020. Interest income derived from bank deposit increased by 11.4% from HK\$187.2 million in 2019 to HK\$208.6 million in 2020, which was mainly attributable to the increase in daily average balance of client cash deposit by 158.7% from HK\$12.6 billion in 2019 to HK\$32.6 billion in 2020, partially offset by the decrease of market interest rates. Interest income derived from IPO financing was up 13.5 times from HK\$12.7 million in 2019 to HK\$184.2 million in 2020, which was mainly attributable to an active Hong Kong IPO market in 2020.

Other income. Our other income increased by 316.3% from HK\$85.3 million in 2019 to HK\$355.1 million in 2020. The growth was primarily due to an increase in our IPO subscription service charge income, currency exchange service income and funds distribution service income.

Costs

Our total costs increased by 147.1% from HK\$281.7 million in 2019 to HK\$696.0 million in 2020.

Brokerage commission and handling charge expenses. Our brokerage commission and handling charge expenses increased by 259.3% from HK\$100.6 million in 2019 to HK\$361.5 million in 2020, which was in line with the increases in our total trading volume and brokerage commission and handling charge income.

Interest expenses. Our interest expenses increased by 107.5% from HK\$89.2 million in 2019 to HK\$185.1 million in 2020. The increase in interest expenses was primarily due to the increase in interest expenses for IPO financing business, as well as the increase of our interest bearing borrowings balances, partially offset by the decrease in market interest rates.

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Processing and servicing costs. Our processing and servicing costs increased by 62.6% from HK\$91.9 million in 2019 to HK\$149.4 million in 2020. The increase was primarily due to the increase in cloud service fee, market information and data fee as well as data transmission fee to support a larger business scale.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our total gross profit increased by 235.3% from HK\$779.9 million in 2019 to HK\$2,614.9 million in 2020. Our gross profit margin increased from 73.4% in 2019 to 79.0% in 2020, primarily attributable to the higher operating leverage as a result of our larger business scale and improved operating efficiency, as well as higher net interest margin in 2020.

Operating expenses

Our total operating expenses increased by 93.8% from HK\$591.9 million in 2019 to HK\$1,147.0 million in 2020.

Research and development expenses. Our research and development expenses increased by 95.7% from HK\$262.3 million in 2019 to HK\$513.3 million in 2020. The increase was primarily due to the continued increase in research and development headcount to support our business growth.

Selling and marketing expenses. Our selling and marketing expenses increased by 133.9% from HK\$164.7 million in 2019 to HK\$385.3 million in 2020. The increase was primarily due to higher branding and marketing expenses in 2020.

General and administrative expenses. Our general and administrative expenses were HK\$248.4 million in 2020, an increase of 50.6% from HK\$164.9 million in 2019. The increase was primarily due to an increase in headcount for general and administrative personnel.

Income tax expenses

We had income tax expenses of HK\$124.8 million in 2020, compared to HK\$12.3 million in 2019, primarily due to significant year-over-year increase in our income before income tax expenses.

Net income and net income margin

As a result of the foregoing, we had net income of HK\$1,325.5 million and net income margin at 40.0% in 2020, compared to HK\$165.7 million and net income margin at 15.5% in 2019.

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DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix IA to this document:

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	HK\$	HK\$	HK\$	HK\$	US\$
	<i>(in thousands)</i>				
Total current assets	21,072,369	70,842,465	100,702,456	108,236,029	13,792,949
Operating lease right-of-use assets	161,617	208,863	243,859	212,529	27,083
Long-term investments	6,166	–	23,394	249,588	31,806
Other non-current assets	159,772	286,439	568,805	1,060,134	135,098
Total non-current assets⁽¹⁾	327,555	495,302	836,058	1,522,251	193,987
Total assets	<u>21,399,924</u>	<u>71,337,767</u>	<u>101,538,514</u>	<u>109,758,280</u>	<u>13,986,936</u>
Total current liabilities	18,716,232	62,860,164	80,378,301	90,065,742	11,477,437
Operating lease liabilities – non-current	123,371	155,898	163,719	123,624	15,754
Other non-current liabilities	11,768	14,015	10,935	16,094	2,051
Total non-current liabilities	135,139	169,913	174,654	139,718	17,805
Total liabilities	<u>18,851,371</u>	<u>63,030,077</u>	<u>80,552,955</u>	<u>90,205,460</u>	<u>11,495,242</u>
Net current assets	<u>2,356,137</u>	<u>7,982,301</u>	<u>20,324,155</u>	<u>18,170,287</u>	<u>2,315,512</u>
Total shareholders' equity	2,548,553	8,307,690	20,985,559	19,552,820	2,491,694
Total liabilities and shareholders' equity	<u>21,399,924</u>	<u>71,337,767</u>	<u>101,538,514</u>	<u>109,758,280</u>	<u>13,986,936</u>

Note:

- (1) Non-current assets include refundable deposits paid to clearing organizations in Hong Kong, Singapore and the U.S., which amounted to HK\$32.9 million, HK\$150.7 million, HK\$337.5 million and HK\$779.5 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As these clearing organizations require member firms, such as our Group, to deposit cash to a clearing fund, the increase in such refundable deposits throughout the Track Record Period was in line with the expansion of our clearing operations.

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Net Current Assets

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,		As of October 31,	
	2019	2020	2021	2022		2022	
	HK\$	HK\$	HK\$	HK\$	US\$	HK\$	US\$
	<i>(in thousands)</i>				<i>(unaudited)</i>		
Current assets							
Cash and cash equivalents	362,574	1,034,668	4,555,096	6,300,400	802,885	7,764,352	989,442
Cash held on behalf of clients	14,540,863	42,487,090	54,734,351	63,262,436	8,061,785	48,744,189	6,211,666
Term deposit	–	300,000	–	5,750	733	5,330	679
Restricted cash	–	–	2,065	1,971	251	1,844	235
Short-term investments	93,773	–	1,169,741	17,501	2,230	17,975	2,291
Securities purchased under agreements to resell	–	–	106,203	–	–	19,423	2,475
Loans and advances	4,188,689	18,825,366	29,587,306	28,829,926	3,673,912	26,168,139	3,334,710
Receivables:							
Clients	247,017	735,145	469,577	1,438,510	183,315	362,971	46,255
Brokers	1,226,348	5,780,461	7,893,927	6,125,217	780,561	5,104,037	650,428
Clearing organizations	304,080	1,243,928	1,961,121	1,915,872	244,147	1,565,258	199,467
Fund management companies and fund distributors	–	297,622	72,340	120,537	15,361	94,869	12,090
Interest	16,892	19,876	50,829	89,458	11,400	171,003	21,792
Prepaid assets	12,470	11,422	18,306	19,711	2,512	26,643	3,395
Other current assets	79,663	106,887	81,594	108,740	13,857	243,654	31,050
Total current assets	21,072,369	70,842,465	100,702,456	108,236,029	13,792,949	90,289,687	11,505,975
Current liabilities							
Amounts due to related parties	33,628	87,169	87,459	64,439	8,212	64,965	8,279
Payables:							
Clients	15,438,879	46,062,842	59,127,439	67,951,394	8,659,317	54,488,995	6,943,750
Brokers	1,484,243	4,533,581	7,599,233	14,365,158	1,830,609	12,120,239	1,544,530
Clearing organizations	–	324,266	393,782	1,359,746	173,278	581,662	74,124
Fund management companies and fund distributors	26,381	127,442	56,690	49,545	6,314	52,395	6,677
Interest	519	5,493	15,359	10,334	1,317	18,377	2,342
Borrowings	1,467,586	5,482,818	6,357,405	4,353,919	554,837	2,860,000	364,461
Securities sold under agreements to repurchase	1,590	5,453,037	4,467,861	–	–	–	–
Operating lease liabilities — current	49,095	66,333	96,860	104,121	13,269	98,946	12,609
Accrued expenses and other current liabilities	214,311	717,183	2,176,213	1,807,086	230,284	1,122,777	143,080
Total current liabilities	18,716,232	62,860,164	80,378,301	90,065,742	11,477,437	71,408,356	9,099,852
Net current assets	2,356,137	7,982,301	20,324,155	18,170,287	2,315,512	18,881,331	2,406,123

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Our net current assets increased by 3.9% from HK\$18,170.3 million (US\$2,315.5 million) as of June 30, 2022 to HK\$18,881.3 million (US\$2,406.1 million) as of October 31, 2022. The change was primarily due to (i) the decrease of HK\$13,462.4 million in our payables to clients, (ii) the decrease of HK\$2,244.9 million in our payables to brokers, and (iii) the decrease of HK\$1,493.9 million in borrowings, partially offset by (i) the decrease of HK\$14,518.2 million in cash held on behalf of clients and (ii) the decrease of HK\$2,661.8 million in loans and advances.

Our net current assets decreased by 10.6% from HK\$20,324.2 million as of December 31, 2021 to HK\$18,170.3 million (US\$2,315.5 million) as of June 30, 2022. The change was primarily due to (i) the increase of HK\$8,824.0 million in our payables to clients, and (ii) the increase of HK\$6,765.9 million in our payables to brokers, partially offset by (i) the increase of HK\$8,528.1 million in cash held on behalf of clients, (ii) the decrease of HK\$2,003.5 million in borrowings and (iii) the decrease of HK\$4,467.9 million in securities sold under agreements to repurchase.

Our net current assets increased by 154.6% from HK\$7,982.3 million as of December 31, 2020 to HK\$20,324.2 million as of December 31, 2021, primarily due to (i) the increase of HK\$12,247.3 million in cash held on behalf of clients, and (ii) the increase of HK\$10,761.9 million in loans and advances, partially offset by (i) the increase of HK\$13,064.6 million in our payables to clients, and (ii) the increase of HK\$3,065.7 million in our payables to brokers.

Our net current assets increased by 238.8% from HK\$2,356.1 million as of December 31, 2019 to HK\$7,982.3 million as of December 31, 2020, primarily due to (i) the increase of HK\$27,946.2 million in cash held on behalf of clients, and (ii) the increase of HK\$14,636.7 million in loans and advances, partially offset by (i) the increase of HK\$30,624.0 million in our payables to clients, and (ii) the increase of HK\$5,451.4 million in securities sold under agreements to repurchase.

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Short-term investments

Our investments are presented on the consolidated balance sheets as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Available-for-sale financial securities ⁽¹⁾	93,773	–	–	–
Money market funds ⁽²⁾	–	–	1,169,741	–
Financial assets at fair value through profit or loss ⁽³⁾	–	–	–	17,501
Total	93,773	–	1,169,741	17,501

Notes:

- (1) Available-for-sale financial securities mainly include wealth management products issued by a commercial bank in China.
- (2) Money market funds purchased are standard products with very low risk and high liquidity issued by established financial institutions with good reputation.
- (3) Financial assets at fair value through profit or loss mainly include equity investments in certain overseas companies.

Short-term investments include debt securities and money market funds, both of which are measured at fair value. Investments classified as short-term investments are reported at fair value with unrealized gains or losses, if any, recorded in accumulated other comprehensive income in the consolidated statements of changes in shareholders' equity. Debt securities in this category are wealth management products with expected return rate or variable interest rate indexed to investment horizon. These wealth management products are issued by a commercial bank in China and our Group can redeem the units held upon request. The balance of our short-term investments decreased from HK\$93.8 million as of December 31, 2019 to nil as of December 31, 2020, as a result of a change of our fund management arrangement. In 2020, we adjusted such arrangement and ceased to purchase wealth management products. As such, our short-term investments decreased to nil in 2020. The balance of our short-term investments increased to HK\$1,169.7 million as of December 31, 2021 and HK\$17.5 million (US\$2.2 million) as of June 30, 2022, respectively, which was primarily attributable to our flexible investment strategy towards money market funds in oversea markets and equity investments in certain overseas companies. After the Listing, our short-term investments will be subject to compliance with Chapter 14 of the Listing Rules.

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We endeavor to increase the return of idle cash and bank balances by placing investments in debt securities and money market funds such that our risk exposure arising from such investments can be limited. Our investment policy in relation to such investments is to monitor our level of idle cash and bank balances and, based on the working capital required at the relevant time, utilize such idle cash to increase the return. In addition, in order to monitor and control the investment risks associated with our portfolio of investments, we have adopted a comprehensive set of internal policies and guidelines to manage our investments. Our finance department is responsible for proposing, analyzing and evaluating potential investments. Our management, including our finance department, has extensive experience in managing the financial aspects of an enterprise's operations. In particular, Mr. Arthur Yu Chen, our chief financial officer, has approximately 14 years of experience in financial services. If applicable, we will also involve our local personnel in each market where we have operations, to assist on the assessment of prospective investments. Prior to making any material investments, the proposal shall be reviewed and approved by Mr. Arthur Yu Chen. According to our Articles of Association, such decision does not require a decision by the Board.

No amount was recognized in other comprehensive income for short-term debt investments classified as available-for-sale during the Track Record Period, because such investments were disposed in 2019 and the amount recognized in other comprehensive income was transferred to investment gains in the consolidated statements of comprehensive income.

Loans and advances

Loans and advances include margin loans, IPO loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for credit losses. Revenues earned from the loans and advances are included in our interest income. Our loans and advances increased from HK\$4.2 billion as of December 31, 2019 to HK\$18.8 billion as of December 31, 2020, and further increased to HK\$29.6 billion as of December 31, 2021, mainly attributable to the expansion of our margin financing business. Our loans and advances decreased from HK\$29.6 billion as of December 31, 2021 to HK\$28.8 billion (US\$3.7 billion) as of June 30, 2022, and further to HK\$26.2 billion (US\$3.3 billion) as of October 31, 2022, primarily due to a decrease in trading activities of our clients.

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The table below sets forth the breakdown of loans and advances by type of loan:

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
			<i>(in thousands)</i>		
Margin loans	4,141,962	18,434,047	29,097,216	26,722,627	3,405,371
IPO loans	–	400,394	34,348	178,584	22,758
Other advances	46,727	–	468,000	1,948,857	248,350
Subtotal	4,188,689	18,834,441	29,599,564	28,850,068	3,676,479
Less: Allowance for credit losses	–	(9,075)	(12,258)	(20,142)	(2,567)
Total	4,188,689	18,825,366	29,587,306	28,829,926	3,673,912

The balance of margin loans increased from HK\$4.1 billion as of December 31, 2019 to HK\$18.4 billion as of December 31, 2020, and further to HK\$29.1 billion as of December 31, 2021, primarily due to the increasing volume of our margin financing business. Our balance of margin loans decreased from HK\$29.1 billion as of December 31, 2021 to HK\$26.7 billion (US\$3.4 billion) as of June 30, 2022, primarily due to the decline in trading activities of our clients.

The balance of IPO loans decreased from HK\$400.4 million as of December 31, 2020 to HK\$34.3 million as of December 31, 2021, primarily due to the decrease in IPO financing activities. As of December 31, 2019, there were no outstanding IPO loans and total amount of them were collected subsequently. The balance of IPO loans amounted to HK\$178.6 million (US\$22.8 million) as of June 30, 2022 due to the outstanding IPO loans at the time. As of October 31, 2022, all of the IPO loans as of June 30, 2022 had been settled.

The other advances as of December 31, 2019, 2020 and 2021 and June 30, 2022 were collateralized bridge loans provided to third parties. As of Latest Practicable Date, all of the bridge loans as of June 30, 2022 remained outstanding.

The allowance for credit losses increased from nil as of December 31, 2019 to HK\$9.1 million as of December 31, 2020, to HK\$12.3 million as of December 31, 2021 and further to HK\$20.1 million (US\$2.6 million) as of June 30, 2022. The overall increasing trend was in line with the increase in balances of borrowings that will be written off to the extent that there is no realistic prospect of recovery.

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Prior to January 1, 2020, we applied incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The identified impairment loss was immaterial prior to January 1, 2020.

Since January 1, 2020, our Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets, which are primarily loans and advances that are collateralized by client securities and the collateral is required to be maintained at specified minimum levels at all times. We monitor margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. We apply the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient, when we reasonably expect that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial assets. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. For the year ended December 31, 2020, 2021 and six months ended June 30, 2021 and 2022, expected credit loss expenses of HK\$9,075 thousand, HK\$3,200 thousand, HK\$8,819 thousand and HK\$7,849 thousand, resulting from the assessment of credit losses for the loans and advances under ASC Topic 326 at period-end were recognized in "Others, net" in the consolidated statements of comprehensive income, respectively.

An allowance for credit losses on other financial assets, including receivables from clients, brokers, clearing organizations and fund management companies and fund distributors, is estimated based on the aging of these financial assets.

Receivables from clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within a few days from the trade date. Because these receivables involve customers who have no recent history of default, and the settlement periods are usually short, the credit risk arising from receivables from clients is considered low. In respect of the receivables from brokers, clearing organizations and fund management companies and fund distributors, we consider that these receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation. As a result, the allowance for credit losses for other financial assets were immaterial for all periods presented.

See Note 2 to the Accountant's Report set out in Appendix IA to this document for allowance for credit losses.

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Receivables

Our accounts receivable are primarily unsettled transaction accounts with maturities within 3 months from clients, brokers, clearing organizations and fund management companies and fund distributors. The impairment loss calculated according to the CECL model were immaterial. Based on historical experience and post-period payments, no actual losses had occurred in accounts receivable during the Track Record Period and up to the Latest Practicable Date.

Trading Receivables from Clients

Trading receivables from clients include amounts due on brokerage transactions on a trade-date basis. The fluctuations in trading receivables from clients throughout the Track Record Period were mainly due to the fluctuations in the volume of unsettled trades with our clients at each period end. As of October 31, 2022, all of our trading receivables from clients as of June 30, 2022 had been settled.

Receivables from Brokers, Clearing Organizations, Fund Management Companies and Fund Distributors

Receivables from and payables to brokers, clearing organizations, fund management companies and fund distributors include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities, derivatives or funds trades not delivered to the seller by the settlement date and cash deposits, and amounts payable for securities, derivatives or funds trades not received from a purchaser by the settlement date.

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

We borrowed margin loans from executing brokers, with the benchmark interest rate plus premium differentiated depending on the amount borrowed, and immediately lent to margin financing clients. Margin loans borrowed is recognized in the payables to brokers.

Our trading receivables from brokers, clearing organizations and fund management companies and fund distributors increased from HK\$1.5 billion as of December 31, 2019 to HK\$7.3 billion as of December 31, 2020, further increased to HK\$9.9 billion as of December 31, 2021 and decreased to HK\$8.2 billion (US\$1.0 billion) as of June 30, 2022, primarily due to the fluctuation in our total unsettled transactions at each period end. The fluctuations in receivables from the clearing organization, which decreased from HK\$1,961.1 million as of December 31, 2021 to HK\$1,915.9 million (US\$244.1 million) as of June 30, 2022, and further to HK\$1,565.3 million (US\$199.5 million) as of October 31, 2022, were mainly influenced by the daily trading volume by our clients trading stocks on the stock exchanges at each period end. The fluctuations in receivables from fund management companies and fund distributors, which increased from HK\$72.3 million as of December 31, 2021 to HK\$120.5 million (US\$15.4 million) as of June 30, 2022, and decreased to HK\$94.9

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million (US\$12.1 million) as of October 31, 2022, were mainly due to the fluctuations in unsettled redemption of funds at each period end. As of October 31, 2022, all of our trading receivables from brokers, clearing organizations and fund management companies and fund distributors as of June 30, 2022 had been settled.

Interest Receivable

Interest receivable which is included in receivables is calculated based on the contractual interest rate of bank deposit, loans and advances, securities loaned and other receivables on an accrual basis, and is recorded as interest income as earned. Our interest receivable increased throughout the Track Record Period and up to June 30, 2022, which was in line with the increase in the interest rates of bank deposits during relevant period. As of October 31, 2022, all of our interest receivable as of June 30, 2022 had been settled.

Payables

Our accounts payable to clients are the funds received from clients. Our accounts payable are primarily unsettled transaction accounts, brokers, clearing organizations and fund management companies and fund distributors. All of the accounts payables are expected to be settled within one year or are repayable on demand.

Payables to Clients

Our trading payables to clients reflect the funds received from clients that would be used in the execution of their trades. The ending balance of payables to clients increased from HK\$15.4 billion as of December 31, 2019 to HK\$46.1 billion as of December 31, 2020, further increased to HK\$59.1 billion as of December 31, 2021 and to HK\$68.0 billion (US\$8.7 billion) as of June 30, 2022, primarily due to the increase in the number of our paying clients.

Our trading payables to clients decreased from HK\$68.0 billion as of June 30, 2022 to HK\$54.5 billion (US\$6.9 billion) as of October 31, 2022, primarily due to sluggish equity capital market performance.

Payables to Brokers, Clearing Organizations, Fund Management Companies and Fund Distributors

Our trading payables to brokers, clearing organizations and fund management companies and fund distributors increased from HK\$1.5 billion as of December 31, 2019 to HK\$5.0 billion as of December 31, 2020, further increased to HK\$8.0 billion as of December 31, 2021 and to HK\$15.8 billion (US\$2.0 billion) as of June 30, 2022 primarily due to the increase in securities lending business. The increase in payables to the clearing organizations, which increased from HK\$393.8 million as of December 31, 2021 to HK\$1,359.7 million (US\$173.3 million) as of June 30, 2022, were primarily due to the increase of the daily trading volume by our clients trading stocks on the Hong Kong stock exchange at each period end. The decrease in payables to fund management companies and fund distributors from HK\$127.4 million as of

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December 31, 2020 to HK\$56.7 million as of December 31, 2021, then to HK\$49.5 million (US\$6.3 million) as of June 30, 2022, was primarily due to the decrease in unsettled subscription of fund at each period end.

Interest Payable

Interest payable which is included in payables is calculated based on the contractual interest rates of payables, borrowings, securities borrowed and securities sold under agreements to repurchase on an accrual basis. Our interest payable increased from HK\$0.5 million as of December 31, 2019 to HK\$5.5 million as of December 31, 2020, and further to HK\$15.4 million as of December 31, 2021. Our interest payable subsequently decreased from HK\$15.4 million as of December 31, 2021 to HK\$10.3 million (US\$1.3 million) as of June 30, 2022. The change was in line with the fluctuations in our borrowings to support our margin financing business.

Securities sold under agreements to repurchase

Transactions involving sales of securities under agreements to repurchase (“**repurchase agreements**”) are treated as collateralized financing transactions. Under repurchase agreements, we receive cash from counterparties and provide securities as collateral. These agreements are carried at amounts at which the securities will subsequently be repurchased, and the interest expense incurred is recorded as interest expenses on the consolidated statements of comprehensive income. Our securities sold under agreements to repurchase decreased from HK\$5,453.0 million as of December 31, 2020 to HK\$4,467.9 million as of December 31, 2021, further to nil and nil as of June 30, 2022 and October 31, 2022, respectively. The decreases in our securities sold under agreements to repurchase in 2021 and the first half of 2022 were primarily due to the increase of cash from our financing activities in 2021 and securities lending business in the first half of 2022, respectively.

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities mainly include certain payables to corporate clients in relation to our ESOP management services. As we provide ESOP management services to certain corporate clients, we execute and administer certain employee stock incentive plans, where we deduct (i) exercise price upon vesting such incentives to the employees, and (ii) applicable tax withheld, which are recorded as payables to corporate clients in relation to our ESOP management services. The payables to corporate clients in relation to our ESOP management services increased from HK\$16.5 million as of December 31, 2019 to HK\$17.8 million as of December 31, 2020, and further to HK\$870.3 million as of December 31, 2021, which was in line with the expansion of our ESOP management business. The payables to corporate clients in relation to our ESOP management services decreased from HK\$870.3 million as of December 31, 2021 to HK\$508.4 million as of June 30, 2022, primarily because we had partially settled certain such payables with our corporate clients in the first half of 2022.

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In addition, our other liabilities include, among other things, contract liabilities in relation to the customer loyalty program, which our Group operates to its customers that offers various incentives in the form of incentive points and coupons for redemption of free or discounted goods or services. For the incentives generated from current sales transaction, our Group defers a portion of commission income with corresponding liability reflected as contract liability attributable to the incentives. As of December 31, 2019, 2020 and 2021 and June 30, 2022, contract liabilities (including non-current portion) in relation to the customer loyalty program were HK\$2.1 million, HK\$8.2 million and HK\$9.0 million and HK\$7.1 million, respectively. See Note 2 to the Accountant's Report in Appendix IA to this document.

LIQUIDITY AND CAPITAL RESOURCES

To date, we have financed our operating and investing activities through net proceeds from our securities offerings, cash generated from operating activities, historical equity financing activities and credit facilities provided by commercial banks, other licensed financial institutions and other parties. As of June 30, 2022, our cash and cash equivalents were HK\$6,300.4 million (US\$802.9 million). Our cash and cash equivalents primarily consist of cash on hand, demand deposits and time deposits with initial terms of less than three months placed with banks or other financial institutions, which are unrestricted for withdrawal or use.

Our net cash generated from operating activities for the year ended December 31, 2021 was HK\$6,012.0 million, compared with HK\$1,969.4 million and HK\$20,456.7 million for the years ended December 31, 2019 and 2020, respectively. Our net cash generated from operating activities for the six months ended June 30, 2022 was HK\$14,118.1 million (US\$1,799.1 million), compared with our net cash used in operating activities of HK\$14,351.7 million for the six months ended June 30, 2021.

We intend to manage and improve our liquidity position through (i) improving the balance of our loans and advances, and (ii) actively managing our receivables from clients, brokers, clearing organizations, fund management companies and fund distributors. We have adopted various measure to accelerate the collection of our accounts receivables, including, but not limited to: (i) reviewing aging analysis of the trade receivables on a monthly basis, (ii) following up with counterparties with outstanding balance of receivables, (iii) implementing any additional measures to further improve our collection rate, and (iv) collecting and retaining supporting documents (including demand notes and reminder letters) to provide support for chasing payments and enforcing our rights under those documents. After the Listing, 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.

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Working Capital Sufficiency Statement

Our Directors are of the opinion that, taking into account the financial resources available to us, including cash and cash equivalents and available financing facilities, we have sufficient working capital for our present requirements, that is at least 12 months from the date of this document.

Regulatory Capital Requirements

Our broker-dealer and insurance-broker subsidiaries, Futu International Hong Kong, Moomoo Financial Inc., Futu Clearing Inc., Moomoo Financial Singapore, Futu Insurance Brokers (Hong Kong) Limited and Futu Australia are subject to capital requirements determined by their respective regulators. Futu International Hong Kong, our subsidiary located in Hong Kong, is subject to the Securities and Futures (Financial Resources) Rules and the Securities and Futures Ordinance, and Futu International Hong Kong is required to maintain minimum paid-up share capital and liquid capital. Moomoo Financial Inc. and Futu Clearing Inc., our subsidiaries located in the United States, are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, which requires the maintenance of minimum net capital. Moomoo Financial Singapore, our subsidiary located in Singapore, is subject to the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations, which requires the maintenance of financial resource over its total risk requirement. Futu Insurance Brokers (Hong Kong) Limited, our subsidiary located in Hong Kong, is subject to the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules, and is required to maintain minimum net asset. Futu Securities (Australia) Ltd., the Company's subsidiary located in Australia, is subject to Regulatory Guide 166 Licensing: Financial requirements, which requires the maintenance of surplus liquid funds when licensees hold client money or property.

The table below summarizes the net capital, the requirement and the excess capital for our broker-dealer and insurance broker subsidiaries as of June 30, 2022:

	As of June 30, 2022		
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	6,243,794	1,593,608	4,650,186
Futu Clearing Inc.	3,456,065	303,734	3,152,331
Moomoo Financial Inc.	109,105	21,343	87,762
Moomoo Financial Singapore	685,433	193,142	492,291
Futu Insurance Brokers (Hong Kong) Limited	1,498	500	998
Futu Securities (Australia) Ltd.	90,381	1,250	89,131

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Regulatory capital requirements could restrict the operating subsidiaries from expanding their business and declaring dividends if their net capital does not meet regulatory requirements.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, all of the regulated operating subsidiaries were in compliance with their respective regulatory capital requirements. See Note 28 to the Accountant's Report in Appendix IA to this document.

Cash Flows

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

	For the Year ended December 31,			For the Six Months ended June 30,		
	2019	2020	2021	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>					
	<i>(unaudited)</i>					
Net cash generated from/(used in)						
operating activities	1,969,434	20,456,717	6,011,971	(14,351,728)	14,118,089	1,799,124
– Operating profit before changes						
in working capital	253,530	1,450,827	2,872,763	1,754,565	1,337,445	170,436
– Changes in working capital . . .	1,715,904	19,005,890	3,139,208	(16,106,293)	12,780,644	1,628,688
Net cash (used in)/generated from						
investing activities	(160,057)	(244,175)	(963,565)	271,378	786,121	100,179
Net cash generated from/(used in)						
financing activities	1,151,622	8,406,896	10,554,218	34,721,267	(4,720,133)	(601,505)
Effect of exchange rate changes on						
cash, cash equivalents and						
restricted cash	(44,666)	(1,117)	167,130	30,620	89,218	11,369
Net increase in cash, cash						
equivalents and restricted cash . .	2,916,333	28,618,321	15,769,754	20,671,537	10,273,295	1,309,167
Cash, cash equivalents and restricted						
cash at beginning of the						
year/period	11,987,104	14,903,437	43,521,758	43,521,758	59,291,512	7,555,754
Cash, cash equivalents and						
restricted cash at end of the						
year/period	14,903,437	43,521,758	59,291,512	64,193,295	69,564,807	8,864,921

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Operating activities

Net cash generated from operating activities in the six months ended June 30, 2022 was HK\$14,118.1 million (US\$1,799.1 million), as compared to net income of HK\$1,213.5 million (US\$154.6 million) in the same period. The difference was primarily due to net increase of HK\$15.6 billion (US\$2.0 billion) in accounts payable to clients and brokers, and net decrease of HK\$749.5 million (US\$95.5 million) in loans and advances, partially offset by net decrease in securities sold under agreements to repurchase of HK\$4,467.9 million (US\$569.4 million). The decrease of loans and advances was due to a decrease in margin loans in light of the decline in trading activities of our clients. 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 principal non-cash items affecting the difference between our net income and our net cash generated from operating activities in the six months ended June 30, 2022 were HK\$92.2 million (US\$11.8 million) in foreign exchange gains and HK\$97.3 million (US\$12.4 million) in share-based compensation.

Net cash generated from operating activities in 2021 was HK\$6.0 billion, as compared to net income of HK\$2,810.2 million in the same year. The difference was primarily due to net increases of HK\$16.1 billion in accounts payable to clients and brokers, partially offset by net increase of HK\$1.8 billion in accounts receivable from clients and brokers and net increase of HK\$10.8 billion 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 income and our net cash generated from operating activities in 2021 were HK\$138.2 million in foreign exchange gains and HK\$98.9 million in share-based compensation expenses.

Net cash generated from operating activities in 2020 was HK\$20.5 billion, as compared to net income of HK\$1,325.5 million in the same year. The difference was primarily due to net increases of HK\$33.7 billion in accounts payable to clients and brokers and of HK\$5.5 billion in securities sold under repurchase agreements, partially offset by net increase of HK\$5.0 billion in accounts receivable from clients and brokers and net increase of HK\$14.6 billion 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 income and our net cash generated from operating activities in 2020 were HK\$32.6 million in share-based compensation expenses and HK\$27.2 million in depreciation and amortization expenses.

Net cash generated from operating activities in 2019 was HK\$2.0 billion, as compared to net income of HK\$165.7 million in the same year. The difference was primarily due to net increase of HK\$3.7 billion in accounts payable to clients and brokers, partially offset by net increase of HK\$927.3 million in accounts receivable from clients and brokers and net increase of HK\$1,101.8 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

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business. The increase in loans and advances was due to the expansion of our margin financing business. The principal non-cash items affecting the difference between our net income and our net cash generated from operating activities in 2019 were HK\$16.0 million in share-based compensation expenses and HK\$16.5 million in depreciation and amortization.

Investing Activities

Net cash generated from investing activities in the six months ended June 30, 2022 was HK\$786.1 million (US\$100.2 million), primarily due to the proceeds from disposal of short-term investments of HK\$4,548.0 million (US\$579.6 million), partially offset by the purchase of short-term investments of HK\$3,361.8 million (US\$428.4 million).

Net cash used in investing activities in 2021 was HK\$963.6 million, primarily due to the purchase of short-term investments of HK\$1,169.7 million and the purchase of property and equipment and intangible assets of HK\$70.5 million, partially offset by the maturity of term deposits of HK\$300.0 million.

Net cash used in investing activities in 2020 was HK\$244.2 million, primarily due to the placement of term deposit of HK\$300.0 million with initial terms of over three months and the purchase of short-term investments of HK\$206.8 million, partially offset by the proceeds from disposal of short-term investments of HK\$307.3 million.

Net cash used in investing activities in 2019 was HK\$160.1 million, primarily due to the purchase of short-term investments of HK\$285.8 million and the purchase of property, equipment and intangible assets of HK\$118.3 million, partially offset by the proceeds from disposal of short-term investments of HK\$250.8 million.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2022 was HK\$4.7 billion (US\$601.5 million), primarily attributable to repayment of other borrowings of HK\$39.8 billion (US\$5.1 billion) and purchase of treasury stock of HK\$2.7 billion (US\$348.0 million), partially offset by proceeds from other borrowings of HK\$37.8 billion (US\$4.8 billion).

Net cash generated from financing activities in 2021 was HK\$10.6 billion, primarily attributable to proceeds of HK\$53.5 billion from other borrowings and proceeds of HK\$10.9 billion from our follow-on offering, partially offset by repayment of other borrowings of HK\$52.3 billion.

Net cash generated from financing activities in 2020 was HK\$8.4 billion, primarily attributable to proceeds of HK\$23.8 billion from other borrowings and proceeds of HK\$4.4 billion from our securities offerings, including issuance of prefunded warrants, partially offset by repayment of other borrowings of HK\$20.1 billion.

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Net cash generated from financing activities in 2019 was HK\$1.2 billion, primarily attributable to proceeds of HK\$6.8 billion from other borrowings and proceeds of HK\$1.3 billion from our initial public offering and concurrent private placement, partially offset by repayment of other borrowings of HK\$6.9 billion.

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

The consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. The main reconciling items include classification and measurement of preferred shares, issuance costs, operating leases, share-based compensation and expected credit loss. The following tables set forth the effects of material differences prepared under U.S. GAAP and IFRS:

	For the Year ended December 31,			For the Six Months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>				
	<i>(unaudited)</i>				
Reconciliation of net income					
attributable to our					
Company in the					
consolidated statements of					
comprehensive income					
Net income attributable to our					
Company in the consolidated					
statements of comprehensive					
income as reported under					
U.S. GAAP	165,664	1,325,523	2,810,210	1,696,190	1,213,525
IFRS adjustments:					
Classification and measurement					
of preferred shares ⁽¹⁾	(216,140)	–	–	–	–
Issuance costs ⁽²⁾	(26,971)	–	(14,336)	–	(4,731)
Operating leases ⁽³⁾	(3,204)	(1,913)	(2,238)	(1,741)	(132)
Share-based compensation ⁽⁴⁾ . .	(10,681)	(19,294)	(76,461)	(19,489)	(74,697)
Expected credit loss ⁽⁵⁾	1,533	(7,475)	(2,520)	(2,636)	(2,651)
Net (loss)/income attributable					
to our Company in the					
consolidated statements of					
comprehensive income as					
reported under IFRS					
	<u>(89,799)</u>	<u>1,296,841</u>	<u>2,714,655</u>	<u>1,672,324</u>	<u>1,131,314</u>

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	As of December 31,			As of June
	2019	2020	2021	30,
				2022
	<i>(HK\$ in thousands)</i>			
Reconciliation of total				
shareholders' equity in the				
consolidated balance sheets				
Total shareholders' equity as reported under U.S. GAAP . . .	2,548,553	8,307,690	20,985,559	19,552,820
IFRS adjustments:				
Issuance costs ⁽²⁾	–	–	(14,336)	(19,067)
Operating leases ⁽³⁾	(4,303)	(6,001)	(8,454)	(8,151)
Expected credit loss ⁽⁵⁾	(2,330)	(9,805)	(12,342)	(14,958)
Total shareholders' equity as reported under IFRS	<u>2,541,920</u>	<u>8,291,884</u>	<u>20,950,427</u>	<u>19,510,644</u>

Notes:

- (1) Under U.S. GAAP, SEC guidance provides for mezzanine-equity (temporary equity) category in addition to the financial liability and permanent equity categories. The purpose of this “in-between” category is to indicate that a security may not be a permanent part of equity. Our Group classified the Preferred Shares as mezzanine equity in the consolidated balance sheets and are recorded initially at fair value, net of issuance costs. Our Group recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to the earliest redemption date.

IFRS 9, “Financial Instruments” has been adopted since January 1, 2018. Under IFRS, there is no concept of mezzanine or temporary equity classification. Our Group designated the Preferred Shares as financial liabilities at fair value through profit or loss which are initially recognized and subsequently measured at fair value. Subsequent to initial recognition, the amounts of changes in fair value of the Preferred Shares that were attributed to changes in credit risk of the Preferred Shares were recognized in other comprehensive income, and the remaining amounts of changes in fair value of the Preferred Shares were recognized in the profit or loss.

- (2) Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criterion for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of our Group in the capital market, and were allocated proportionately between the existing and new shares. As a result, our Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

- (3) Under U.S. GAAP, for operating leases, the amortization of right-of-use assets and the interest expense element of lease liabilities are recorded together as operating lease expenses, which results in a straight-line recognition effect in the consolidated statements of operations and comprehensive loss.

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Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured using the effective interest rate method, which generally yields a “front-loaded” expense with more expense recognized in earlier years of the lease.

- (4) Our Group granted options and RSUs with service condition only to employees and modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan from US\$1.20 to US\$0.60 on December 30, 2019.

Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method.

Under IFRS, the graded vesting method must be applied, which means we should treat each installment of the award as a separate grant. As a result, each installment would be separately measured and attributed to expense over the related vesting period which would accelerate the expense recognition.

- (5) Our Group is mainly exposed to credit risk associated with loans and advances. We apply the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient (ASC 326-20-35-6), when we reasonably expect that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral’s fair value is greater than the amortized cost of the financial asset. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. The allowance for credit losses on the financial asset is limited to the difference between the fair value of the collateral at the reporting date and the amortized cost basis of the financial assets.

Under U.S. GAAP, prior to January 1, 2020, our Group applied incurred loss methodology for recognizing credit losses. On January 1, 2020, our Group adopted FASB ASC Topic 326 and applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances.

Under IFRS, impairment model of financial assets is an expected loss model. Our Group applies a three-stage impairment model to calculate our impairment allowance and recognise our expected credit losses from January 1, 2018 for loans and advances. Our Group considers the credit risk characteristics of loans and advances when determining if there is significant increase in credit risk since the initial recognition. For loans and advances with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of exposure at default, probabilities of default and loss given default, based on our Group’s past history, existing market conditions as well as forward looking estimates.

INDEBTEDNESS

The following table sets forth a breakdown of our indebtedness for the periods indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	<i>(HK\$ in thousands)</i>				
	<i>(unaudited)</i>				
Borrowings	1,467,586	5,482,818	6,357,405	4,353,919	2,860,000
Lease liabilities	172,466	222,231	260,579	227,745	205,283
Total	1,640,052	5,705,049	6,617,984	4,581,664	3,065,283

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Borrowings

The following table sets forth a breakdown of our borrowings as our Group for the periods indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	<i>(HK\$ in thousands)</i>				<i>(unaudited)</i>
Borrowings from:					
Banks ⁽¹⁾	1,467,586	5,182,620	6,357,405	4,353,919	2,860,000
Third parties ⁽²⁾	–	300,198	–	–	–
Total	<u>1,467,586</u>	<u>5,482,818</u>	<u>6,357,405</u>	<u>4,353,919</u>	<u>2,860,000</u>

Notes:

- (1) We have unused borrowing facilities of HK\$3,326.6 million, HK\$3,285.9 million, HK\$14,695.1 million, HK\$17,955.7 million and HK\$19,181.3 million (US\$2,444.3 million) from banks as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively, which are uncommitted. These bank borrowings were pledged by margin clients' shares as the primary source of credit risk mitigation of the lenders, and bore floating interest rates based on various benchmarks including Hong Kong Prime Rate, Hong Kong Interbank Offered Rate, and CNH Hong Kong Interbank Offered Rate.
- (2) We had borrowings of HK\$300.2 million from third parties as of December 31, 2020 which were one-off in nature.

As of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, the total amounts of our outstanding short-term borrowings were HK\$1,467.6 million, HK\$5,482.8 million, HK\$6,357.4 million, HK\$4,353.9 million (US\$554.8 million) and HK\$2,860.0 million (US\$364.5 million), respectively. Such outstanding short-term borrowings bear weighted average interest rates of 4.29% per annum, 1.82% per annum, 1.15% per annum, 1.75% per annum and 3.82% per annum, respectively, which is an average that is adjusted to reflect the contribution of such outstanding borrowings to the total borrowings. The general decreasing trend of such weighted average interest rates is in line with that of HIBOR, which subsequently experienced upward trend in second half of 2022.

As of October 31, 2022, we had total facilities of HK\$22.0 billion (US\$2.8 billion) from bank (excluding overdraft facilities), of which HK\$19.1 billion (US\$2.4 billion) were unutilized and unrestricted. Most of the bank borrowings were pledged by margin clients' shares as the primary source of credit risk mitigation of the lenders, and bear floating interest rates based on HIBOR.

We did not have any facility from a third party as of October 31, 2022.

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Other than the above, we did not have any significant capital and other commitments, long-term obligations, or guarantees as of October 31, 2022.

As of October 31, 2022, we had HK\$50.0 million (US\$6.4 million) overdraft facilities, of which HK\$50.0 million (US\$6.4 million) were unutilized and unrestricted. As a measure to manage our cash and liquidity position, the bank facilities allow us to maintain adequate sources to fund our working capital requirements or other financing needs and provide the flexibility for us to borrow additional funds on an as-needed basis.

Lease Liabilities

All of our leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the weighted-average remaining lease term on these leases was approximately four years, four years, three years and three years, respectively, and the weighted-average discount rate used to measure the lease liabilities was approximately 4.75%, 4.75%, 4.71% and 4.69%, respectively. As of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, operating lease liabilities were HK\$172.5 million, HK\$222.2 million, HK\$260.6 million, HK\$227.7 million (US\$29.0 million) and HK\$205.3 million (US\$26.2 million). Our lease agreements do not contain any residual value guarantees, restrictions or covenants.

Contingent Liabilities

As of December 31, 2019, 2020 and 2021, June 30, 2022 and October 31, 2022, we did not have any material contingent liabilities.

Indebtedness Statement

Except as disclosed above, as of October 31, 2022, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since October 31, 2022 and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

Our capital expenditures are primarily incurred for purchase of property, equipment and intangible assets. Our capital expenditures were HK\$118.3 million in 2019, HK\$44.6 million in 2020, HK\$70.5 million in 2021 and HK\$62.7 million (US\$8.0 million) in the six months ended June 30, 2022.

The capital expenditures in the six months ended June 30, 2022 were primarily due to the purchase of computers and other office equipment.

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The capital expenditures in 2021 were primarily due to the purchase of computers and equipment.

The capital expenditures in 2020 were primarily due to the renovation of our new office space.

The capital expenditures in 2019 were primarily due to the purchase of private cloud equipment to enhance our infrastructure.

We intend to fund our future capital expenditures with our existing cash balance. We will continue to make capital expenditures to meet the expected growth of our business.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of June 30, 2022:

	Payment due by December 31,						2026 and thereafter
	Total		2022	2023	2024	2025	
	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	
	<i>(in thousands)</i>						
Operating lease commitments ⁽¹⁾ . . .	244,738	31,188	54,101	100,453	42,159	33,622	14,403
Total	244,738	31,188	54,101	100,453	42,159	33,622	14,403

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 August 30, 2027.

Other than as shown above, we did not have any significant long-term obligations or guarantees as of June 30, 2022.

Our commitments primarily related to capital contribution obligation for certain investment funds. Our total commitments contracted but not yet reflected in the consolidated financial statements amounted to nil, nil, HK\$814.6 million (US\$104.0 million) and HK\$580.7 million (US\$74.0 million) as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

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KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates indicated, or for the periods indicated:

	For the Year ended/as of December 31,			For the Six Months ended/as of June 30	
	2019	2020	2021	2021	2022
Gross profit margin ⁽¹⁾ . . .	73.4%	79.0%	83.1%	80.9%	87.1%
Net income margin ⁽²⁾ . . .	15.5%	40.0%	39.5%	44.9%	35.8%
Return on equity ⁽³⁾	N.A. ⁽⁵⁾	24.4%	19.2%	N.A. ⁽⁵⁾	12.0% ⁽⁶⁾
Return on total assets ⁽⁴⁾ .	N.A. ⁽⁵⁾	2.9%	3.3%	N.A. ⁽⁵⁾	2.3% ⁽⁶⁾

Notes:

- (1) Equals gross profit divided by revenues for the period.
- (2) Equals net profit divided by revenues for the period.
- (3) Equals net profit divided by the average of beginning and ending total shareholders' equity for the period.
- (4) Equals net profit divided by the average of beginning and ending total asset for the period.
- (5) Our audited financial information for the year ended December 31, 2018 and our unaudited financial information as of June 30, 2021 are not included in this document.
- (6) Return on assets and return on equity for the six months ended June 30, 2022 were calculated by dividing the net profit for the period with average total shareholders' equity and average total assets multiplied by 2 in order to arrive at proforma annualized ratios.

Gross profit margin

Our gross profit margin increased steadily from 73.4% for the year ended December 31, 2019 to 87.1% for the six months ended June 30, 2022, primarily due to higher operating leverage as a result of our larger business scale as well as higher gross profit margins for interest income in 2019, 2020 and 2021 and the six months ended June 30, 2022.

Net income margin

Our net income margin was 15.5%, 40.0%, 39.5%, 44.9% and 35.8% for the years ended December 31, 2019, 2020, 2021 and for six months ended June 30, 2021 and 2022, respectively. The overall increasing trend in our net income margin was primarily driven by increase in gross profit margin for reasons set out above, as well as generally higher operating leverage in operating expenses as a result of our larger business scale.

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Return on equity

Our return on equity was 24.4%, 19.2% and 12.0% for the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, respectively. This was mainly due to an increase in our average of beginning and ending total shareholders' equity for the corresponding periods from approximately HK\$5.4 billion for the period from December 31, 2019 to December 31, 2020 to HK\$14.6 billion for the period from December 31, 2020 to December 31, 2021 and further to HK\$20.3 billion for the period from December 31, 2021 to June 30, 2022, derived from issuance of ordinary shares and accumulation of retained earnings from our business operations. The decrease from 19.2% for the year ended December 31, 2021 to 12.0% for the six months ended June 30, 2022 was mainly due to the decrease in annualized net profit, partially offset by the effect of share repurchase in the first half of 2022.

Return on total assets

Our return on total assets was 2.9%, 3.3% and 2.3% for the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, respectively. The increase from 2.9% for the year ended December 31, 2020 to 3.3% for the year ended December 31, 2021 was mainly due to continued increase in profits recorded and overall increasing trend in profit margin, partially offset by the increase in our total assets at a slower rate from approximately HK\$71.3 billion as of December 31, 2020 to HK\$101.5 billion as of December 31, 2021, derived from continued increase in balance of cash held on behalf of clients and loans and advances as a result of our continued business expansion. The decrease from 3.3% for the year ended December 31, 2021 to 2.3% for the six months ended June 30, 2022 was mainly due to the decrease in annualized net profit as well as the increase in our total assets from approximately HK\$101.5 billion as of December 31, 2021 to HK\$109.8 billion (US\$14.0 billion) as of June 30, 2022.

DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to a variety of financial risks, including foreign exchange risk, credit risk, interest rate risk and inflation. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Foreign Exchange Risk

Most of our revenues are denominated in Hong Kong dollar and a significant portion of our expenses are denominated in Renminbi. 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 are traded in U.S. dollars.

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Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the financial instruments. Futu International Hong Kong is not exposed to significant transactional foreign currency risk since almost all of its transactions, assets and liability are denominated in Hong Kong dollars and U.S. dollars and Hong Kong dollars are pegged against U.S. dollars. The impact of foreign currency fluctuations in our earnings is included in “Others, net” in the consolidated statements of comprehensive income. At the same time, we are exposed to translational foreign currency risk since some of our major 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 income.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had RMB-denominated net liabilities of HK\$94.3 million, net liabilities of HK\$262.9 million, net assets of HK\$2,374.8 million and net assets of HK\$2,378.5 million (US\$303.1 million), respectively. We estimate that a 10% depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2019, 2020 and 2021 and June 30, 2022 would result in an increase of US\$1.2 million, an increase of US\$3.4 million, a decrease of US\$30.5 million and a decrease of US\$30.3 million respectively, in our pre-tax profit for the years ended December 31, 2019, 2020, 2021 and for the six months ended June 30, 2022.

Credit Risk

Cash held on behalf of clients are segregated and deposited in financial institutions as required by the Securities and Futures Ordinance and the Uniform Net Capital Rule (Rule 15c3-1). These financial institutions are of sound credit ratings, therefore management believes that there is no significant credit risk related to cash held on behalf of clients.

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

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 below 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.

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In connection with our clearing activities, we are obligated to settle transactions with brokers and other financial institutions even if our 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 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, 2019, 2020, 2021 and for the six months ended June 30, 2022, 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, 2019, 2020, 2021 and June 30, 2022, we did not have any material concentrations of credit risk within or 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 and floating rate borrowings. We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax income. The model includes all interest-sensitive assets and liabilities. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax income. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of a simulated change in interest rates. The results of the simulations based on our financial position as of June 30, 2022 indicate that a gradual 1% (100 basis points) increase/decrease in interest rates over a 12-month period would have increased/decreased our profit before tax by approximately HK\$346.8 million (US\$44.3 million), depending largely on the extent and timing of possible changes in floating rates.

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 2019, 2020, 2021 and June 2022 were increases of 4.5%, 0.2%, 1.5% 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 were increases of 2.9% for December 2019, -1.0% for December 2020, 2.4% for December 2021 and 1.8% for June 2022. The global economic growth has, in the past, been

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accompanied by periods of high inflation. In response, governments have implemented policies from time to time to control inflation, such as restriction on the availability of credit by imposing tighter bank lending policies or higher interest rates, and may take similar measures in response to future inflationary pressures. Rampant inflation without such mitigation policies would likely increase our funding costs, thereby significantly reducing our profitability. 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.

OFF-BALANCE SHEET ARRANGEMENTS

We have entered into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include the margin financing and securities borrowing and lending agreements. The margin loans extended to the clients are collateralized by the cash or securities pledged in clients' accounts at a required margin level determined at our sole discretion. Securities borrowing and lending transactions require us to deposit cash collateral with the lender and receive the cash collateral from the borrower. The cash collateral is generally in excess of the market value of the securities borrowed and lent. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the borrower of these transactions does not return the loaned securities or provide additional cash collateral, we may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy our obligations to return the securities. We monitor required margin and collateral level on a daily basis in compliance with regulatory and internal guidelines and control our risk exposure through risk management system. Under applicable agreements, clients are required to deposit additional collateral or reduce holding positions, when necessary to avoid forced liquidation of their positions. See Note 18 to the Accountant's Report in Appendix IA to this document.

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 liquidity, capital resources, market risk support or credit support to us or engages in leasing, hedging or product development services with us.

HOLDING COMPANY STRUCTURE

We began our operations in December 2007 through Shenzhen Futu to provide internet technology and software development services. We undertook the Reorganization to facilitate our initial public offering in the United States. Shensi Beijing, our wholly owned subsidiary, entered into a series of contractual agreements with Shenzhen Futu and its shareholders in September 2018 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 VIEs when and to the extent permitted by PRC laws.

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Futu Holdings Limited, our holding company was incorporated in April 2014. Being a holding company, Futu Holdings Limited has no material operations of its own. We conduct our operations primarily through our subsidiaries in Hong Kong, Singapore, the U.S. and Australia, and our VIEs and its subsidiaries in China. As a result, Futu Holdings Limited's ability to pay dividends depends upon dividends paid by our subsidiaries in Hong Kong, Singapore, the U.S. and Australia. If our existing Hong Kong, Singapore, the U.S. and Australia 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, our VIEs and its subsidiaries 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 VIEs 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 as of the Latest Practicable Date and may pay dividends until when generate accumulated profits and meet the requirements for statutory reserve funds.

RELATED-PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Related party transactions are trade in nature and are set out in Note 30 to the Accountant's Report set out in Appendix IA to this document. Our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on an arm's length basis.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company prepared in accordance with Rule 4.29 of the Listing Rules are set out below for the purpose of illustrating the effect of the Listing on the unaudited consolidated net tangible assets attributable to shareholders of our Company as at September 30, 2022 as if the Listing had taken place on that date.

The unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to shareholders of our Company as at September 30, 2022 or at any future dates following the completion of the Listing. The unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company are based on the unaudited consolidated net tangible assets attributable to the shareholders of our Company as at September 30, 2022, as shown in the Unaudited Interim Condensed Consolidated Financial Information of the Group, the text of which is set out in Appendix IB to this listing document, and adjusted as described below.

	Unaudited consolidated net tangible assets attributable to shareholders of our Company as at September 30, 2022 ⁽¹⁾	Estimated listing expenses ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company	Unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$⁽³⁾</i>
Based on				
1,123,267,879				
Shares ⁽³⁾	20,135,122	(88,888)	20,046,234	17.85

Notes:

- (1) The unaudited consolidated net tangible assets attributable to shareholders of our Company as at September 30, 2022 has been extracted from the Unaudited Interim Condensed Consolidated Financial Information of the Group as set out in Appendix IB to this listing document which is based on the unaudited consolidated net assets attributable to shareholders of the Company as at September 30, 2022 of approximately HK\$20,186.2 million with adjustment for intangible assets as at September 30, 2022 of HK\$51.1 million.
- (2) The estimated listing expenses in an aggregate amount of approximately HK\$88.9 million (excluding listing expenses of approximately HK\$5.0 million which have been accounted for in the consolidated statements of comprehensive income of the Group prior to September 30, 2022) mainly include professional fees to the Joint Sponsors, legal advisers, the legal advisers to the Joint Sponsors and the reporting accountant.

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- (3) The unaudited pro forma adjusted net tangible assets attributable to shareholders of our Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,123,267,879 Shares were in issue (for the purpose of this unaudited pro forma financial information excluding 110,839,528 Shares which are regarded as treasury stock under the share repurchase program of the Company) assuming that the Listing had been completed on September 30, 2022 but does not take into account any Shares which may be issued upon the exercise of options granted under the Share Incentive Plans or any Shares which may be issued or repurchased by our Company.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to September 30, 2022.

DIVIDEND AND DIVIDEND POLICY

Dividend

We did not declare or distribute any dividend to our Shareholders during the years ended December 31, 2019, 2020, 2021, and for the six month ended June 30, 2022.

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 to pay 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. 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, Mainland China, Singapore, the United States and Australia 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 “Regulations — Overview of the Laws and Regulations Relating to Our Presence in China — Regulations on Foreign Exchange — Regulations on Dividend Distribution.”

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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 depositary, as the registered holder of such ordinary shares, and the depositary 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.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we had retained profit of HK\$5,366.0 million (US\$683.8 million).

LISTING EXPENSES

Listing expenses mainly include (i) sponsor-related expenses of approximately HK\$23.5 million, and (ii) non-sponsor related expenses of approximately HK\$70.4 million, which consist of, professional fees paid to the reporting accountant, legal advisers and other professional parties for their services rendered in relation to the Listing of approximately HK\$56.4 million and other fees and expenses of approximately HK\$14.0 million. Approximately HK\$2.9 million and HK\$2.1 million of the listing expenses were recognized and charged to our consolidated statement of comprehensive income during the year ended December 31, 2021 and the six months ended June 30, 2022, respectively. After June 30, 2022, we expect approximately HK\$88.9 million of the listing expenses will be charged to the profit or loss of our Company. The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2022, the end date of the periods reported in the Accountant's Report set out in Appendix IA, and there is no event since June 30, 2022 that would materially affect the information shown in the Accountant's Report set out in Appendix IA up to the date of this document.

DISCLOSURE REQUIRED UNDER LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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RECENT DEVELOPMENT

The table below summarizes our results of operations for the periods indicated, which were extracted from the unaudited interim condensed consolidated financial information as set out in Appendix IB:

	For the Nine months ended September 30,		
	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>		
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenues			
Brokerage commission and handling charge income	3,056,091	2,959,050	376,959
Interest income	1,900,608	2,076,484	264,527
Other income	555,812	297,774	37,934
Total revenues	<u>5,512,511</u>	<u>5,333,308</u>	<u>679,420</u>
Costs			
Brokerage commission and handling charge expenses	(484,462)	(265,795)	(33,860)
Interest expenses	(321,286)	(110,525)	(14,080)
Processing and servicing costs	(183,463)	(277,642)	(35,369)
Total costs	<u>(989,211)</u>	<u>(653,962)</u>	<u>(83,309)</u>
Total gross profit	<u>4,523,300</u>	<u>4,679,346</u>	<u>596,111</u>
Operating expenses			
Research and development expenses	(534,692)	(887,613)	(113,075)
Selling and marketing expenses	(1,055,101)	(742,692)	(94,613)
General and administrative expenses	(311,147)	(600,802)	(76,537)
Total operating expenses	<u>(1,900,940)</u>	<u>(2,231,107)</u>	<u>(284,225)</u>

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	For the Nine months ended September 30,		
	2021	2022	
	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>		
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Others, net	(9,691)	(219,175)	(27,921)
Income before income tax expenses and share of loss from equity method investment	2,612,669	2,229,064	283,965
Income tax expenses	(301,268)	(247,572)	(31,539)
Share of loss from equity method investment	–	(13,324)	(1,697)
Net income	2,311,401	1,968,168	250,729

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Revenues

Our revenues decreased by 3.3% from HK\$5,512.5 million in the nine months ended September 30, 2021 to HK\$5,333.3 million (US\$679.4 million) in the nine months ended September 30, 2022.

- *Brokerage commission and handling charge income.* Our brokerage commission and handling charge income decreased by 3.2% from HK\$3,056.1 million in the nine months ended September 30, 2021 to HK\$2,959.1 million (US\$377.0 million) in the nine months ended September 30, 2022. The decrease was primarily due to a decline in trading volume from the high base during the same period in 2021 when market peaked, which was partially offset by an increase in the blended commission rate as applied based on trading volume from 6.2 basis points to 7.9 basis points.
- *Interest income.* Interest income increased by 9.3% from HK\$1,900.6 million in the nine months ended September 30, 2021 to HK\$2,076.5 million (US\$264.6 million) in the nine months ended September 30, 2022. The increase was mainly driven by higher interest income from bank deposits amid rate hikes despite lower margin financing income and IPO financing interest income.

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- *Other income.* Our other income decreased by 46.4% from HK\$555.8 million in the nine months ended September 30, 2021 to HK\$297.8 million (US\$37.9 million) in the nine months ended September 30, 2022. The decrease was primarily due to lower IPO financing service charge income and underwriting fee income.

Costs

Our total costs decreased by 33.9% from HK\$989.2 million in the nine months ended September 30, 2021 to HK\$654.0 million (US\$83.3 million) in the nine months ended September 30, 2022.

- *Brokerage commission and handling charge expenses.* Our brokerage commission and handling charge expenses decreased by 45.1% from HK\$484.5 million in the nine months ended September 30, 2021 to HK\$265.8 million (US\$33.9 million) in the nine months ended September 30, 2022. Brokerage commission expenses declined by a wider margin than brokerage commission income primarily due to cost savings from our U.S. self-clearing business.
- *Interest expenses.* Our interest expenses decreased by 65.6% from HK\$321.3 million in the nine months ended September 30, 2021 to HK\$110.5 million (US\$14.1 million) in the nine months ended September 30, 2022. The decrease in interest expenses was primarily due to (i) lower margin and IPO financing interest expenses due to a decrease in our interest-bearing borrowings balances and (ii) lower interest expenses associated with our securities borrowing and lending business due to slower trading activities.
- *Processing and servicing costs.* Our processing and servicing costs increased by 51.3% from HK\$183.5 million in the nine months ended September 30, 2021 to HK\$277.6 million (US\$35.4 million) in the nine months ended September 30, 2022. The increase was primarily due to higher cloud service fees to support international market expansion.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our total gross profit increased by 3.4% from HK\$4,523.3 million in the nine months ended September 30, 2021 to HK\$4,679.3 million (US\$596.1 million) in the nine months ended September 30, 2022. Our gross profit margin increased from 82.1% in the nine months ended September 30, 2021 to 87.7% in the nine months ended September 30, 2022, primarily attributable to cost savings from our U.S. self-clearing business and an upgraded service package with our U.S. clearing house and higher operating leverage as a result of our larger business scale.

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Operating expenses

Our total operating expenses increased by 17.4% from HK\$1,900.9 million in the nine months ended September 30, 2021 to HK\$2,231.1 million (US\$284.2 million) in the nine months ended September 30, 2022. The increase was mainly driven by an increase in employee compensation and benefits from HK\$785.2 million to HK\$ 1,497.8 million, which was primarily due to (i) an increase in headcount for across various functions, and (ii) an increase in the number of RSUs granted to our employees under the 2019 Share Incentive Plan in 2022.

- *Research and development expenses.* Our research and development expenses increased by 66.0% from HK\$534.7 million in the nine months ended September 30, 2021 to HK\$887.6 million (US\$113.1 million) in the nine months ended September 30, 2022. The increase was primarily due to the increase in research and development headcount to build U.S. clearing capabilities and support new product offerings in existing and new markets.
- *Selling and marketing expenses.* Selling and marketing expenses decreased by 29.6% from HK\$1,055.1 million in the nine months ended September 30, 2021 to HK\$742.7 million (US\$94.6 million) in the nine months ended September 30, 2022. The decrease was primarily due to fewer net new paying client during the period, leading to lower selling and marketing expense.
- *General and administrative expenses.* Our general and administrative expenses increased by 93.1% from HK\$311.1 million in the nine months ended September 30, 2021 to HK\$600.8 million (US\$76.5 million) in the nine months ended September 30, 2022. The increase was primarily due to an increase in headcount for general and administrative personnel.

Income tax expenses

We recorded income tax expenses of HK\$247.6 million (US\$31.5 million) in the nine months ended September 30, 2022, compared to HK\$301.3 million in the nine months ended September 30, 2021, primarily due to decrease in our income before income tax expenses.

Net income and net income margin

As a result of the foregoing, we recorded net income of HK\$1,968.2 million (US\$250.7 million) and net income margin at 36.9% in the nine months ended September 30, 2022, compared to HK\$2,311.4 million and net income margin at 41.9% in the nine months ended September 30, 2021.

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CASH FLOW DATA

The following table sets forth a summary of our cash flows for the periods indicated, which were extracted from the unaudited interim condensed consolidated financial information as set out in Appendix IB:

	For the Nine months ended September 30,		
	2021	2022	2022
	<i>HK\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>		
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash generated from operating activities	5,204,783	2,170,283	276,476
Net cash generated from investing activities	242,581	769,963	98,087
Net cash generated from/(used in) financing activities	13,335,444	(2,593,823)	(330,432)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	88,578	(108,099)	(13,770)
Net increase in cash, cash equivalents and restricted cash	18,871,386	238,324	30,361
Cash, cash equivalents and restricted cash at beginning of the period	43,521,758	59,291,512	7,553,251
Cash, cash equivalents and restricted cash at end of the period	62,393,144	59,529,836	7,583,612

Operating activities

Net cash generated from operating activities in the nine months ended September 30, 2022 was HK\$2,170.3 million (US\$276.5 million), as compared to net income of HK\$1,968.2 million (US\$250.7 million) in the same period. The difference was primarily due to net decrease of HK\$3.0 billion (US\$0.4 billion) in account receivables from clients and brokers, and net increase of HK\$1.7 billion (US\$0.2 billion) in accounts payables to clearing organization, partially offset by net decrease of HK\$4.5 billion (US\$0.6 billion) in securities sold under agreements to repurchase.

FINANCIAL INFORMATION

Investing activities

Net cash generated from investing activities in the nine months ended September 30, 2022 was HK\$770.0 million (US\$98.1 million), primarily due to the proceeds from disposal of short-term investments of HK\$4,560.1 million (US\$580.9 million), partially offset by the purchase of short-term investments of HK\$3,377.2 million (US\$430.2 million).

Financing activities

Net cash used in financing activities in the nine months ended September 30, 2022 was HK\$2,593.8 million (US\$330.4 million), primarily attributable to repayment of short-term borrowings of HK\$55.3 billion (US\$7.0 billion) and purchase of treasury stock of HK\$2,796.5 million (US\$356.3 million), partially offset by proceeds from short-term borrowings of HK\$55.5 billion (US\$7.1 billion).

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

The unaudited interim consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS and are extracted from the unaudited interim condensed consolidated financial information as set out in Appendix IB. The main reconciling items include issuance costs, operating leases, share-based compensation and expected credit loss. The following tables set forth the effects of material differences prepared under U.S. GAAP and IFRS:

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
	<i>(unaudited)</i>	<i>(unaudited)</i>
Reconciliation of net income attributable to our Company in the consolidated statements of comprehensive income		
Net income attributable to our Company in the consolidated statements of comprehensive income as reported under U.S. GAAP	2,311,401	1,968,168
IFRS adjustments:		
Issuance costs ⁽¹⁾	–	(5,195)
Operating leases ⁽²⁾	(1,664)	(196)
Share-based compensation ⁽³⁾	(49,247)	(106,549)
Expected credit loss ⁽⁴⁾	(1,313)	683
	2,259,177	1,856,911
Net income attributable to our Company in the consolidated statements of comprehensive income as reported under IFRS	2,259,177	1,856,911

FINANCIAL INFORMATION

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
	<i>(unaudited)</i>	
 Reconciliation of total shareholders' equity in the consolidated balance sheets		
Total shareholders' equity as reported under U.S. GAAP		
	20,985,559	20,186,243
IFRS adjustments:		
Issuance costs ⁽¹⁾	(14,336)	(19,531)
Operating leases ⁽²⁾	(8,454)	(7,869)
Expected credit loss ⁽⁴⁾	(12,342)	(11,624)
 Total shareholders' equity as reported under IFRS	20,950,427	20,147,219

Notes:

- (1) Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criterion for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of our Group in the capital market, and were allocated proportionately between the existing and new shares. As a result, our Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

- (2) Under U.S. GAAP, for operating leases, the amortization of right-of-use assets and the interest expense element of lease liabilities are recorded together as operating lease expenses, which results in a straight-line recognition effect in the consolidated statements of operations and comprehensive loss.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured using the effective interest rate method, which generally yields a "front-loaded" expense with more expense recognized in earlier years of the lease.

- (3) Our Group granted options and restricted share units with service condition only to employees and modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to from US\$1.20 to US\$0.60 on December 30, 2019.

Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method. While under IFRS, the graded vesting method must be applied, our Group should treat each installment of the award as a separate grant, this means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.

FINANCIAL INFORMATION

- (4) Our Group is mainly exposed to credit risk associated with loans and advances.

Under U.S. GAAP, prior to January 1, 2020, our Group applied incurred loss methodology for recognizing credit losses. On January 1, 2020, our Group adopted FASB ASC Topic 326 and applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances.

Under IFRS, impairment model of financial assets is an expected loss model. Our Group applies a three-stage impairment model to calculate their impairment allowance and recognise their expected credit losses from January 1, 2018 for loans and advances. Our Group considers the credit risk characteristics of loans and advances when determining if there is significant increase in credit risk since the initial recognition. For loans and advances with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of exposure at default, probabilities of default and loss given default, based on the past history, existing market conditions as well as forward looking estimates.

CAPITAL EXPENDITURES

Our capital expenditures primarily incurred for purchase of property, equipment and intangible assets. Our capital expenditures were HK\$75.5 million (US\$9.6 million) for the nine months ended September 30, 2022. We intend to fund our future capital expenditures with our existing cash balance. We will continue to make capital expenditures to meet the expected growth of our business.

FUTURE PLANS AND PROSPECTS

FUTURE PLANS AND PROSPECTS

See “Business — Growth Strategies” for a detailed discussion of our future plans and prospects.

REASONS FOR THE LISTING

Our Directors consider that it would be desirable and beneficial for our Company to apply for a dual-primary Listing on the Stock Exchange by way of Introduction. Please see “Information about This Document and the Introduction” in this document for further details. The Listing on the Stock Exchange further strengthens our brand. It also allows us to share the benefits from the long-term stable development and diversified investor base of Hong Kong capital markets. Our Directors consider that this is important for our Company’s future growth and long-term competitiveness.

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

REGISTRATION, DEALINGS AND SETTLEMENT

Please refer to the section headed “Information about this Document and the Introduction” for further details about: (i) registration and stamp duty; (ii) Share certificates in respect of Shares registered in our Hong Kong Share register; (iii) converting ADSs to Class A Ordinary Shares registered in Hong Kong; (iv) eligibility of Class A Ordinary Shares for admission into CCASS; (v) dealings in Class A Ordinary Shares on the Hong Kong Stock Exchange; and (vi) settlement information.

ARRANGEMENTS TO FACILITATE TRANSFERS TO HONG KONG AND CONVERSION OF ADSs TO SHARES

Arrangements have been made to facilitate: (a) for holders of our Class A Ordinary Shares, the migration of Shares from our principal share register in the Cayman Islands to our Hong Kong Share register; and (b) for holders of ADSs, services for converting ADSs to Class A Ordinary Shares, to ensure that there would be sufficient liquidity immediately upon and shortly after, commencement of dealings in Hong Kong. Please refer to the section headed “Information about this Document and the Introduction — Depositary” for further details.

If you do not currently have a broker/CCASS account open through which you can trade Hong Kong listed securities on the Hong Kong Stock Exchange, please contact a broker to open an account.

For holders of our Class A Ordinary Shares who have already submitted the specimen signature(s) to the Hong Kong Share Registrar and opened a broker account in Hong Kong or otherwise have a CCASS Investor Participant stock account, such Shareholders shall make necessary arrangements with the broker or arrange personally for deposit of their Class A Ordinary Shares into the relevant CCASS Participant’s stock account or CCASS Investor Participant stock account.

For ADS holders who wish to cancel their ADSs to withdraw the Class A Ordinary Shares they represent, and who have already opened a broker account in Hong Kong or otherwise have a CCASS Investor Participant stock account, such ADS holders shall instruct the broker to arrange, or arrange personally, for surrender of the ADSs to the depositary for cancellation of the ADSs and the transfer of the Class A Ordinary Shares withdrawn from the depositary’s account with the custodian within the CCASS system to the investor’s Hong Kong stock account.

We have arranged with our principal share registrar in the Cayman Islands and the Hong Kong Share Registrar to arrange for the removal of a portion of our Class A Ordinary Shares (which includes all of our Class A Ordinary Shares represented by ADSs) from our Cayman Islands share register to our Hong Kong Share register prior to the Listing at no additional cost to the Shareholders.

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

BRIDGING ARRANGEMENTS

Intended market arrangements during the Bridging Period

Designated Dealers

We have appointed HSBC Securities Brokers (Asia) Limited as the designated securities dealer (designated dealer identity number: 7691) (the “**Designated Dealer**”) and Goldman Sachs (Asia) Securities Limited (designated dealer identity number: 7692) as the alternate designated securities dealer (the “**Alternate Designated Dealer**”), each being a regulated entity approved by the Hong Kong Stock Exchange, to carry out below bridging and other trading arrangements in good faith and on arm’s length terms with a view to contributing towards liquidity to meet demand for our Shares in Hong Kong and to maintain an orderly market. The Designated Dealer and the Alternate Designated Dealer have been appointed for a period of one month, commencing from the Listing Date.

The designated dealer identity numbers have been set up solely for the purposes of carrying out arbitrage trades, covered short-sales and other trades in Hong Kong as described in this document, in order to ensure identification and enhance transparency of such trades in the Hong Kong market. Any change in a designated dealer identity number will be disclosed as soon as practicable by way of announcement on the websites of our Company and the Hong Kong Stock Exchange as well as our Company’s filings with the SEC published on the SEC’s website on or before the first day of the Bridging Period.

Bridging and liquidity arrangements

For a period of one month commencing on the Listing Date (the “**Bridging Period**”), the Designated Dealer and/or its affiliates will seek to undertake, or, under the circumstance that the trades cannot be undertaken by the Designated Dealer as a result of technical failures, request the Alternate Designated Dealer to undertake, certain trading activities in circumstances as described below. The Bridging Period will end on January 29, 2023 (being the period of one month from and including the Listing Date). The Alternate Designated Dealer will only undertake trading activities at the request of the Designated Dealer. The Designated Dealer and the Alternate Designated Dealer envisage undertaking the below activities for the purposes of facilitating the trading of our Class A Ordinary Shares in Hong Kong upon Listing and maintaining an orderly market for our Class A Ordinary Shares on the Hong Kong Stock Exchange:

- (a) *Stock borrowing arrangements.* On December 22, 2022, The Hongkong and Shanghai Banking Corporation Limited as borrower, entered into a stock borrowing and lending agreement (the “**Stock Borrowing Agreement**”) with Lera Ultimate Limited as lender (the “**Lender**”) to ensure that the Designated Dealer and/or the Alternate Designated Dealer will have ready access to appropriate quantities of Class A Ordinary Shares for settlement purposes upon Listing and throughout the Bridging Period.

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

Pursuant to the Stock Borrowing Agreement, the Lender will make available to the borrower stock lending facilities of approximately 50,000,000 Class A Ordinary Shares (the “**Borrowed Shares**”), or approximately 5.72% of the Class A Ordinary Shares in issue immediately upon Listing (without taking into account the Class A Ordinary Shares to be issued pursuant to the Share Incentive Plans), on one or more occasions, subject to applicable Laws. The Borrowed Shares will be registered on our Hong Kong Share register and admitted into CCASS prior to and upon Listing. Under the Stock Borrowing Agreement, the Borrowed Shares shall be returned to the Lender no later than 20 business days after the expiry of the Bridging Period. To close out their borrowed positions, the Designated Dealer and/or the Alternate Designated Dealer may purchase ADSs from Nasdaq and convert such ADSs into Class A Ordinary Shares, purchase Class A Ordinary Shares from the Hong Kong Stock Exchange or use any unutilised Borrowed Shares registered on our Hong Kong Share register to transfer to the Lender.

The Designated Dealer and/or the Alternate Designated Dealer may sell Class A Ordinary Shares in the Hong Kong market, in order to provide liquidity to meet demand for our Class A Ordinary Shares in the Hong Kong market during the Bridging Period. In the unlikely event that the amount of Borrowed Shares falls short of what is required, the Designated Dealer and the Alternate Designated Dealer have the option to purchase additional ADSs from the U.S. market and convert these to Class A Ordinary Shares in Hong Kong in order to facilitate the liquidity arrangements if necessary.

- (b) the Designated Dealer and the Alternate Designated Dealer will closely monitor the trading of our Class A Ordinary Shares and continue to replenish their Share inventory while carrying out the liquidity trades. Once the market opens and during the Continuous Trading Period (as defined in the Rules and Regulations of the Exchange and the Options Trading Rules (“**Rules of the Exchange**”)), the Designated Dealer and/or the Alternate Designated Dealer may adopt various quantitative and qualitative parameters, including continuous monitoring of the bid/ask price, closing price, last recorded price, day high/low price, trading volume, intra-day volatility, availability of sell orders in the market, macro backdrop, sector and company related news, in order to form a view as to the fair market value and a reasonable trading range for the stock. The Designated Dealer and/or the Alternate Designated Dealer will monitor the market closely to ensure on a timely basis such sell orders are placed in the market as necessary to provide and facilitate liquidity while helping to maintain an orderly and fair market. On the other hand, should supply exceed demand, they may opt to build up their inventory by purchasing stock from sellers. If the Designated Dealer and/or the Alternate Designated Dealer choose to purchase ADSs overnight on Nasdaq, the date of settlement for ADSs is on the second business day following the trade date (T+2). The Designated Dealer and/or the Alternate Designated Dealer can subsequently present ADRs evidencing such ADSs at the office of the Depositary, and send an instruction to cancel such ADSs to the Depositary. Upon payment of fees, expenses, taxes or charges and subject in

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

all cases to the terms of the deposit agreement, the Depositary will instruct its custodian to deliver the Class A Ordinary Shares underlying the cancelled ADSs to Designated Dealer's and/or Alternate Designated Dealer's CCASS participant stock accounts provided in the instruction, in all cases subject to there being a sufficient number of Class A Ordinary Shares on the Hong Kong Share register to facilitate a withdrawal from the ADS program directly into the CCASS system. If there is no delay, these Shares will be available the following morning Hong Kong time (T+2) at the earliest for settlement of Shares sold on or after T+2 by the Designated Dealer and/or the Alternate Designated Dealer on the Hong Kong Stock Exchange. While such transfer of Class A Ordinary Shares take place, the Designated Dealer and/or the Alternate Designated Dealer will utilize Class A Ordinary Shares borrowed under the Stock Borrowing Agreement for settlement of the sales made in Hong Kong. Alternatively, the Designated Dealer and/or Alternate Designated Dealer may purchase Class A Ordinary Shares from the Hong Kong market to replenish their Share inventory.

- (c) The Designated Dealer and/or Alternate Designated Dealer will enter into such bridging and liquidity arrangements (including the arbitrage activities) with a view to contributing towards the liquidity of our Class A Ordinary Shares in Hong Kong, and they intend for such bridging arrangements to constitute proprietary transactions for them and/or their affiliates.

In light of the above bridging and liquidity arrangements, our Company and the Joint Sponsors are of the view that there are adequate and effective precautionary measures in place to facilitate the maintenance of an orderly, informed and fair market in the securities of our Company upon and following its Listing in Hong Kong. Other than the Designated Dealer and the Alternate Designated Dealer, trading activities may be carried out by market participants who have access to our Class A Ordinary Shares. Also, other existing Shareholders who have converted their shareholdings into our Class A Ordinary Shares in Hong Kong upon the commencement of trading can also carry out trades in our Class A Ordinary Shares to facilitate the liquidity of the trading of our Class A Ordinary Shares on the Hong Kong Stock Exchange. Such activities will depend on the number of market participants (other than the Designated Dealer and the Alternate Designated Dealer) who elect to enter into such bridging and liquidity arrangements.

The bridging and liquidity arrangements being implemented in connection with the Listing are not equivalent to the price stabilization activities which may be undertaken in connection with an initial public offering.

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

It should be noted that each of the Designated Dealer and the Alternate Designated Dealer and any persons acting for it may, in connection with the proposed liquidity activities, maintain a long position in the Class A Ordinary Shares. There is no certainty regarding the extent, time or the period for which each of the Designated Dealer and the Alternate Designated Dealer and any persons acting for it may maintain such a long position in the Class A Ordinary Shares. The liquidation of any such long position by the Designated Dealer and the Alternate Designated Dealer or any persons acting for it may have an adverse impact on the market price of the Class A Ordinary Shares.

There are no restrictions on existing Shareholders to dispose of their Shares under Hong Kong laws. Under the Hong Kong Listing Rules, apart from the restrictions under Rules 9.09(b) (in which a waiver has been sought and obtained from the Hong Kong Stock Exchange), there are no other restrictions on existing Shareholders in relation to the disposal of Shares. For further details in respect of the waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules, please refer to the section headed “Waivers — Dealing in Shares prior to Listing” in this document.

Exemption in relation to short selling

Certain trades envisaged to be carried out by the Designated Dealer and the Alternate Designated Dealer during the Bridging Period may constitute covered short-selling (or be deemed to constitute short-selling) under Hong Kong Laws. The Rules of the Exchange prohibit short-selling other than short selling of Designated Securities (as defined in the Rules of the Exchange) during the Continuous Trading Period (as defined in the Rules of the Exchange).

The Designated Dealer and the Alternate Designated Dealer, have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, an exemption: (i) in order to permit the Designated Dealer and the Alternate Designated Dealer to conduct the proposed activities described above which may constitute (or may be deemed to constitute) short-selling of securities during the pre-opening session (as defined in the Rules of the Exchange as being from 9:00 a.m. to 9:30 a.m. on the commencement of the morning trading session, Hong Kong time), the Continuous Trading Period in circumstances where the Shares are not Designated Securities, and closing auction session (as defined in the Rules of Exchange as being from 4:00 p.m. to 4:10 p.m. on closing of afternoon session or, when there is no afternoon session on the eves of Christmas, New Year and Lunar New Year, from 12:00 noon to 12:10 p.m., Hong Kong time); and (ii) from the regulation that a short sale shall not be made on the Hong Kong Stock Exchange below the POS reference price, the best current ask price or the CAS reference price except where the Designated Security is a Market Making Security (as defined in the Rules of the Exchange) approved by the SFC to be excluded from the application of the regulation.

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

No person, other than the Designated Dealer and the Alternate Designated Dealer (including their respective affiliates authorised to carry out trading activities), is permitted to enter into short sales of our Class A Ordinary Shares on the Hong Kong Stock Exchange during the Bridging Period or thereafter unless the Shares are designated for short-selling by the Hong Kong Stock Exchange. Upon the expiry of the Bridging Period, the Designated Dealer and the Alternate Designated Dealer will not be able to engage in further bridging and liquidity activities described above in its capacity as the Designated Dealer or Alternate Designated Dealer (as the case may be) in respect of our Class A Ordinary Shares on the Hong Kong Stock Exchange.

Spread of shareholdings

It is expected that the following measures and factors will assist in creating and/or improving the spread of holdings of our Class A Ordinary Shares available for trading on the Hong Kong Stock Exchange following the Listing.

ADS holders may at their discretion cancel their ADRs and withdraw their Class A Ordinary Shares from the ADS program as described in the section headed “Information about this Document and the Introduction” in this document. For further details, please refer to the section headed “Information about this Document and the Introduction”. To the extent that existing ADS holders elect to cancel their ADRs and to receive Class A Ordinary Shares tradable on the Hong Kong Stock Exchange shortly after Listing, such converted Class A Ordinary Shares will help contribute to the general liquidity of our Class A Ordinary Shares in the Hong Kong market.

Our Directors consider that, having regard to the arrangements described in “— Intended market arrangements during the Bridging Period” and “— Investor education” in this section, all reasonable efforts have been made to facilitate the migration of our Shares to the Hong Kong Share register which shall provide sufficient basis for an open market at the time of the Listing.

Benefits of bridging and liquidity arrangements

We believe that the above market arrangements will benefit the Listing in the following ways:

- (a) the above stock borrowing will ensure that the Designated Dealer and the Alternate Designated Dealer have sufficient Class A Ordinary Shares registered on our Hong Kong Share register and admitted into CCASS to meet the demands of public investors in Hong Kong from the commencement of Listing and for a reasonable period of time, being the Bridging Period, to maintain liquidity in the trading of our Class A Ordinary Shares on the Hong Kong Stock Exchange;

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

- (b) additionally, trades carried out by the Designated Dealer and the Alternate Designated Dealer during the Bridging Period would be according to guidelines for the additional purpose of maintaining an orderly market in which our Class A Ordinary Shares are traded in Hong Kong;
- (c) the bridging arrangements are perceived to be a mechanism which is fair to all market participants who have access to our Shares, as it is open to all of our Shareholders and other market participants who have such access to carry out trades similar to those to be carried out by the Designated Dealer and the Alternate Designated Dealer to facilitate the liquidity in the trading of our Class A Ordinary Shares in the Hong Kong market; and
- (d) by seeking to minimize the risk of a disorderly market developing from significant demand for Class A Ordinary Shares not fulfilled in Hong Kong upon and during the initial period after Listing.

INVESTOR EDUCATION

Arrangements involving our Company and the Joint Sponsors

Prior to the Listing, our Company and the Joint Sponsors will cooperate to inform the investor community of general information about our Company, as well as developments and/or changes to the market arrangements disclosed in this document.

After Listing, our Company and the Joint Sponsors may continue to take measures to educate the public. The following measures may be taken to enhance transparency of our Company and the market arrangements, as appropriate:

- (a) media briefings and press interviews to inform investors of the arrangements;
- (b) analyst briefings to local brokerages/research houses that cover Hong Kong-listed companies;
- (c) investor relations activities, such as a non-deal road show, to maintain the interest of investors in our Class A Ordinary Shares and our business;
- (d) details of the available pool of Class A Ordinary shares (with the aggregate number of Class A Ordinary Shares which have been registered on the Hong Kong Share register and the inventory held by the Designated Dealer, and the designated dealer identity number(s) for carrying out liquidity activities) at the time of the Listing to meet the demand in the Hong Kong market will be disclosed by way of an announcement on the websites of our Company and the Hong Kong Stock Exchange as well as our Company's filings with the SEC published on the SEC's website not later than one business day before the commencement of trading of our Class A Ordinary Shares on the Hong Kong Stock Exchange;

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

- (e) information, including the previous day closing price of our Company, trading volume and other relevant historical trading data will be disclosed by way of a daily announcement on the websites of our Company and the Hong Kong Stock Exchange during a period of three business days prior to the commencement of dealings in our Class A Ordinary Shares on the Hong Kong Stock Exchange;
- (f) information on developments and updates of the liquidity arrangements (for example, updates on the accumulated average daily trading volume of our Class A Ordinary Shares on the Hong Kong Stock Exchange at interim periods) will be disclosed by way of announcement on the websites of our Company and the Hong Kong Stock Exchange on a weekly basis during the Bridging Period; and
- (g) electronic copies of this document will be available for public download from the websites of our Company and the Hong Kong Stock Exchange.

Historical trading information in respect of the ADSs on Nasdaq

Historical ADSs prices may not be indicative of the prices at which the ADSs will be traded following completion of the Introduction. See “Risk Factors — Risks Related to our Class A Ordinary Shares and ADSs” for further details. The following table summarises the reported highs, lows, month ends and monthly averages of the closing trading prices of the ADSs from March 8, 2019 to the Latest Practicable Date:

	<u>High</u>	<u>Low</u>	<u>Month End</u>	<u>Monthly average</u>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
2019				
March	18.57	15.32	18.52	17.31
April	18.62	13.76	13.95	16.03
May	14.24	10.98	10.98	12.46
June	10.98	9.55	10.57	10.06
July	11.40	10.54	11.33	11.09
August	11.32	9.90	10.80	10.60
September	12.42	10.63	10.97	11.58
October	10.87	10.40	10.77	10.69
November	11.56	10.45	10.45	10.96
December	10.45	9.92	10.32	10.11

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

	High	Low	Month End	Monthly average
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
2020				
January	12.18	10.17	11.11	10.95
February	13.41	10.91	11.57	12.12
March	13.00	8.34	9.47	10.52
April	11.15	9.90	11.15	10.52
May	15.99	10.42	15.99	12.94
June	24.96	16.84	23.67	21.06
July	34.37	23.24	34.37	29.64
August	40.30	31.61	32.17	34.13
September	33.05	28.50	28.62	30.58
October	34.48	27.52	29.73	30.99
November	48.55	29.70	44.10	39.77
December	45.75	37.88	45.75	41.88
2021				
January	103.20	45.75	99.41	77.22
February	191.00	105.00	152.79	151.30
March	165.68	105.83	158.82	137.97
April	177.92	132.65	148.78	149.13
May	148.78	104.43	142.27	130.01
June	179.55	144.12	179.09	156.74
July	162.20	98.74	102.46	132.10
August	114.11	86.30	95.19	100.41
September	113.19	88.86	91.02	99.14
October	90.50	53.52	53.52	74.68
November	61.24	47.49	47.49	55.84
December	46.19	37.34	43.30	41.70
2022				
January	49.01	36.09	43.25	42.85
February	45.84	39.55	42.75	43.11
March	41.73	24.39	32.56	35.16
April	41.35	31.04	31.99	34.42
May	36.71	28.35	36.71	32.36
June	53.74	35.49	52.21	46.28
July	56.08	41.60	41.60	46.97
August	49.09	38.37	49.09	41.84
September	49.03	36.40	37.29	42.37
October	39.99	32.18	33.86	35.60
November	61.49	35.50	61.49	47.53
December to the Latest Practicable Date	70.33	60.95	67.09	66.50

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

The following table set forth the average daily trading volume and turnover of each month of the ADSs from the commencement of trading of the ADSs on Nasdaq on March 8, 2019 to the Latest Practicable Date:

	Average daily trading volume*		Average daily turnover*
	(ADSs in millions)	(% of total underlying Shares)	(US\$ in millions)
2019			
March	1.5	1.3%	25.3
April	0.6	0.5%	9.3
May	0.5	0.5%	6.2
June	0.3	0.3%	3.4
July	0.1	0.1%	1.5
August	0.1	0.1%	1.5
September	0.1	0.1%	1.4
October	0.1	0.0%	0.6
November	0.1	0.1%	0.7
December	0.1	0.1%	0.8
2020			
January	0.2	0.2%	2.3
February	0.2	0.2%	3.0
March	0.3	0.2%	2.9
April	0.1	0.1%	1.0
May	0.4	0.4%	6.1
June	0.9	0.7%	19.1
July	1.3	1.1%	39.8
August	2.1	1.5%	73.3
September	1.2	0.9%	36.1
October	1.5	1.1%	47.3
November	3.2	2.3%	138.4
December	3.5	2.6%	147.5

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

	Average daily trading volume*		Average daily turnover*
	<i>(ADSs in millions)</i>	<i>(% of total underlying Shares)</i>	<i>(US\$ in millions)</i>
2021			
January	7.5	5.5%	666.6
February	13.9	10.3%	2,186.5
March	12.9	9.5%	1,782.9
April	7.4	5.0%	1,083.0
May	6.2	4.2%	823.7
June	3.9	2.6%	614.8
July	5.9	3.8%	720.8
August	6.0	3.9%	623.8
September	4.5	2.9%	453.8
October	10.3	6.7%	703.3
November	4.6	3.0%	259.2
December	6.2	4.1%	257.2
2022			
January	5.9	4.0%	268.3
February	3.2	2.1%	136.5
March	9.9	6.7%	332.2
April	4.6	3.2%	160.4
May	3.6	2.5%	121.3
June	5.0	3.6%	235.2
July	2.3	1.6%	106.8
August	2.9	2.1%	128.4
September	1.8	1.3%	78.2
October	2.0	1.4%	72.1
November	2.8	2.0%	136.7
December to the Latest Practicable Date	2.8	2.0%	187.3

* Source: FactSet

MARKET ARRANGEMENTS TO FACILITATE DEALINGS IN HONG KONG

Inventory of Shares to meet Hong Kong demand

Taking into account the average daily trading volume of the ADSs on Nasdaq in the 46 months prior to the Latest Practicable Date, the average daily trading volume, within one (1) month, three (3) months and six (6) months immediately after listings, of certain dual-listed companies recently listed in Hong Kong with market capitalization and turnover similar to that of our Company and the investor education measures as stated above, the Joint Sponsors believe that the above arrangements should provide a reasonable basis to facilitate the development of an open and orderly market in Hong Kong for the Shares.

DISCLOSURE AND OTHER SOURCES OF INFORMATION

Disclosure of market arrangements and investor education

As disclosed in “— Investor education” above, we have, and will continue to, take various measures to keep our Shareholders, investors and the market informed about our market arrangements, including dealing activities under the bridging and liquidity arrangements, and investor education prior to and after Listing. This includes, in addition to those disclosed in “— Investor education” above, the following measures:

- (a) publishing an announcement on the websites of the Company and the Hong Kong Stock Exchange as soon as practicable and in any event before 9:00 a.m., Hong Kong time, on the business day immediately before the Listing Date disclosing the number of Class A Ordinary Shares to be removed from our principal share register in the Cayman Islands and registered on our Hong Kong Share register;
- (b) the interests of, and changes in interests from the dealings of, the Designated Dealer and the Alternate Designated Dealer in our Class A Ordinary Shares will be disclosed on the website of the Hong Kong Stock Exchange in accordance with Part XV of the SFO and other applicable Laws; and
- (c) additional information about our Company can be found in our Company’s filings with the SEC published on the SEC’s website.

Sources of information

<u>Source</u>	<u>Designated website</u>
Company	ir.futuholdings.com
Hong Kong Stock Exchange	www.hkexnews.hk
U.S. Securities and Exchange Commission	www.sec.gov

The following is the text of a report set out on pages IA-1 to IA-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this listing document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FUTU HOLDINGS LIMITED AND GOLDMAN SACHS (ASIA) L.L.C. AND UBS SECURITIES HONG KONG LIMITED

Introduction

We report on the historical financial information of Futu Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages IA-4 to IA-75, which comprises the consolidated balance sheets as at December 31, 2019, 2020 and 2021 and June 30, 2022, the company balance sheets as at December 31, 2019, 2020, and 2021 and June 30, 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-4 to IA-75 forms an integral part of this report, which has been prepared for inclusion in the listing document of the Company dated December 22, 2022 (the "Listing Document") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note II.2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note II.2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2019, 2020, and 2021 and June 30, 2022 and the consolidated financial position of the Group as at December 31, 2019, 2020 and 2021 and June 30, 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation set out in Note II.2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the six months ended June 30, 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note II.2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation set out in Note II.2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IA-4 have been made.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

December 22, 2022

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation Of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued consolidated financial statements of the Group for the years ended December 31, 2019, 2020 and 2021 and the unaudited condensed financial information of the Group for the six months ended June 30, 2022 ("Historical Financial Statements"), after making additional disclosures for the purpose of this report. The previously issued consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The previously issued consolidated financial statements of the Group for the years ended December 31, 2019, 2020 and 2021 were audited by PricewaterhouseCoopers Zhong Tian LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and were published on the website of the Securities and Exchange Commission of the United States pursuant to the regulatory requirement as set out in Rule 101(a) of Regulation S-T.

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share data)

	Note	As of December 31,			As of
		2019	2020	2021	June 30,
		HK\$	HK\$	HK\$	2022
				HK\$	
ASSETS					
Cash and cash equivalents		362,574	1,034,668	4,555,096	6,300,400
Cash held on behalf of clients		14,540,863	42,487,090	54,734,351	63,262,436
Term deposit		–	300,000	–	5,750
Restricted cash		–	–	2,065	1,971
Short-term investments	4	93,773	–	1,169,741	17,501
Securities purchased under agreements to resell		–	–	106,203	–
Loans and advances (net of allowance of nil, HK\$9,075 thousand, HK\$12,258 thousand and HK\$20,142 thousand as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)	6	4,188,689	18,825,366	29,587,306	28,829,926
Receivables:					
Clients	7	247,017	735,145	469,577	1,438,510
Brokers	7	1,226,348	5,780,461	7,893,927	6,125,217
Clearing organizations	7	304,080	1,243,928	1,961,121	1,915,872
Fund management companies and fund distributors	7	–	297,622	72,340	120,537
Interest	7	16,892	19,876	50,829	89,458
Prepaid assets		12,470	11,422	18,306	19,711
Other current assets	8	79,663	106,887	81,594	108,740
Total current assets		21,072,369	70,842,465	100,702,456	108,236,029
Operating lease right-of-use assets	5	161,617	208,863	243,859	212,529
Long-term investments	9	6,166	–	23,394	249,588
Other non-current assets	8	159,772	286,439	568,805	1,060,134
Total non-current assets		327,555	495,302	836,058	1,522,251
Total assets		21,399,924	71,337,767	101,538,514	109,758,280
LIABILITIES					
Amounts due to related parties	30(b)	33,628	87,169	87,459	64,439
Payables:					
Clients	11	15,438,879	46,062,842	59,127,439	67,951,394
Brokers	11	1,484,243	4,533,581	7,599,233	14,365,158
Clearing organizations	11	–	324,266	393,782	1,359,746
Fund management companies and fund distributors	11	26,381	127,442	56,690	49,545
Interest	11	519	5,493	15,359	10,334
Borrowings	10	1,467,586	5,482,818	6,357,405	4,353,919
Securities sold under agreements to repurchase		1,590	5,453,037	4,467,861	–
Operating lease liabilities – current	5	49,095	66,333	96,860	104,121
Accrued expenses and other current liabilities	12	214,311	717,183	2,176,213	1,807,086
Total current liabilities		18,716,232	62,860,164	80,378,301	90,065,742
Operating lease liabilities – non-current	5	123,371	155,898	163,719	123,624
Other non-current liabilities	12	11,768	14,015	10,935	16,094
Total non-current liabilities		135,139	169,913	174,654	139,718
Total liabilities		18,851,371	63,030,077	80,552,955	90,205,460

Commitments and Contingencies (Note 29)

	Note	As of December 31,			As of
		2019	2020	2021	June 30,
		HK\$	HK\$	HK\$	2022
				HK\$	
SHAREHOLDERS' EQUITY					
Class A ordinary shares (US\$0.00001 par value; 48,700,000,000, 48,700,000,000, 48,700,000,000 and 48,700,000,000 shares authorized as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively; 459,090,941, 590,139,760, 737,944,914 and 739,142,450 shares issued and outstanding as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)					
	13	36	47	58	58
Class B ordinary shares (US\$0.00001 par value; 800,000,000, 800,000,000, 800,000,000 and 800,000,000 shares authorized as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively; 544,552,051, 494,552,051, 494,552,051, and 494,552,051 shares issued and outstanding as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)					
	13	42	38	38	38
Additional paid-in capital					
		2,536,182	6,960,369	17,935,752	18,039,055
Treasury stock (nil, nil, 29,462,760 and 109,041,760 shares as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)					
	13	–	–	(1,178,755)	(3,909,782)
Accumulated other comprehensive (loss)/income					
		(4,446)	4,974	75,994	57,454
Retained earnings					
		16,739	1,342,262	4,152,472	5,365,997
Total shareholders' equity					
		2,548,553	8,307,690	20,985,559	19,552,820
Total liabilities and shareholders' equity					
		21,399,924	71,337,767	101,538,514	109,758,280

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except for share and per share data)

	Note	Year ended December 31,			Six months ended June 30,	
		2019	2020	2021	2021	2022
		HK\$	HK\$	HK\$	HK\$	HK\$
						(unaudited)
Revenues						
Brokerage commission and handling charge income	19	511,365	1,990,138	3,913,027	2,122,679	2,001,246
Interest income	20	464,903	965,627	2,518,198	1,268,940	1,195,661
Other income	21	85,287	355,057	684,095	389,842	190,821
Total revenues		1,061,555	3,310,822	7,115,320	3,781,461	3,387,728
Costs						
Brokerage commission and handling charge expenses	22, 25	(100,550)	(361,486)	(572,159)	(359,002)	(183,221)
Interest expenses	23	(89,238)	(185,090)	(376,902)	(246,967)	(65,827)
Processing and servicing costs	24, 25	(91,916)	(149,378)	(257,003)	(116,024)	(186,799)
Total costs		(281,704)	(695,954)	(1,206,064)	(721,993)	(435,847)
Total gross profit		779,851	2,614,868	5,909,256	3,059,468	2,951,881
Operating expenses						
Research and development expenses	25	(262,345)	(513,283)	(805,325)	(310,787)	(574,174)
Selling and marketing expenses	25	(164,701)	(385,320)	(1,392,070)	(652,036)	(507,235)
General and administrative expenses	25	(164,850)	(248,404)	(529,048)	(174,365)	(388,532)
Total operating expenses		(591,896)	(1,147,007)	(2,726,443)	(1,137,188)	(1,469,941)
Others, net		(9,462)	(17,238)	2,478	(19,593)	(115,819)
Income before income tax expenses and share of loss from equity method investment		178,493	1,450,623	3,185,291	1,902,687	1,366,121
Income tax expenses	26	(12,286)	(124,793)	(375,081)	(206,497)	(143,198)
Share of loss from equity method investment		(543)	(307)	–	–	(9,398)
Net income		165,664	1,325,523	2,810,210	1,696,190	1,213,525
Preferred shares redemption value accretion		(12,309)	–	–	–	–
Income allocation to participating preferred shareholders		(10,196)	–	–	–	–
Net income attributable to ordinary shareholders of the Company		143,159	1,325,523	2,810,210	1,696,190	1,213,525
Net income		165,664	1,325,523	2,810,210	1,696,190	1,213,525
Other comprehensive income/(loss), net of tax		(3,147)	9,420	71,020	2,954	(18,540)
Foreign currency translation adjustment		(3,147)	9,420	71,020	2,954	(18,540)
Total comprehensive income		162,517	1,334,943	2,881,230	1,699,144	1,194,985
Net income per share attributable to ordinary shareholders of the Company						
Basic	17	0.17	1.28	2.34	1.45	1.05
Diluted		0.16	1.26	2.30	1.42	1.04
Net income per ADS						
Basic		1.38	10.23	18.72	11.56	8.38
Diluted		1.25	10.10	18.43	11.36	8.30
Weighted average number of ordinary shares used in computing net income per share						
Basic	17	832,790,329	1,036,865,727	1,200,912,670	1,173,661,489	1,158,972,163
Diluted		917,897,426	1,050,143,014	1,219,672,508	1,194,580,873	1,169,572,515

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except for share and per share data)

	Ordinary shares		Class A ordinary shares		Class B ordinary shares		Additional paid in capital	Accumulated other comprehensive loss	(Accumulated deficit)/ Retained earnings	Total (deficit)/ equity
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Note	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
As of January 1, 2019	403,750,000	31	-	-	-	-	-	(148,925)	(150,193)	
Profit for the year	-	-	-	-	-	-	(1,299)	165,664	165,664	
Share-based compensation	-	-	-	-	-	15,967	-	-	15,967	
Preferred shares redemption value accretion	-	-	-	-	-	(12,309)	-	-	(12,309)	
Conversion and redesignation of preferred shares into ordinary shares	-	-	237,129,043	19	140,802,051	11	1,262,751	-	1,262,781	
Issuance of ordinary shares upon Initial Public Offering ("IPO")	-	-	115,666,666	9	-	-	1,259,308	-	1,259,317	
Redesignation of ordinary shares into Class B ordinary shares	(403,750,000)	(31)	-	-	403,750,000	31	-	-	-	
Shares issued upon exercise of employee share options	-	-	106,295,232	8	-	-	10,465	-	10,473	
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	(3,147)	-	(3,147)	
Balance at December 31, 2019	-	-	459,090,941	36	544,552,051	42	2,536,182	16,739	2,548,553	

Note	Ordinary shares		Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital		Accumulated other comprehensive (loss)/income		Retained earnings		Total equity	
	Number of Shares	Amount HK\$	Number of Shares	Amount HK\$	Number of Shares	Amount HK\$	Number of Shares	Amount HK\$	Amount HK\$	Amount HK\$	(loss)/income HK\$	Amount HK\$	Amount HK\$	Amount HK\$	Amount HK\$	Amount HK\$
As of January 1, 2020	-	-	459,090,941	36	544,552,051	42	-	-	2,536,182	(4,446)	16,739	2,548,553				
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,325,523	1,325,523				
Share-based compensation	-	-	-	-	-	-	-	-	32,573	-	-	32,573				
Shares issued upon exercise of employee share options	-	-	5,048,824	-	-	-	-	-	16,799	-	-	16,799				
Issuance of ordinary shares upon follow-on public offering	-	-	76,000,000	7	-	-	-	-	2,339,711	-	-	2,339,711				
Surrendered and cancellation of Class A ordinary shares	-	-	(5)	-	-	-	-	-	-	-	-	-				
Share conversion from Class B to Class A	-	-	50,000,000	4	(50,000,000)	(4)	-	-	-	-	-	-				
Issuance of pre-funded warrants	-	-	-	-	-	-	-	-	2,035,104	-	-	2,035,104				
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	-	-	9,420	-	9,420				
Balance at December 31, 2020	-	-	590,139,760	47	494,552,051	38	-	-	6,960,369	4,974	1,342,262	8,307,690				
As of January 1, 2021	-	-	590,139,760	47	494,552,051	38	-	-	6,960,369	4,974	1,342,262	8,307,690				
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,810,210	2,810,210				
Share-based compensation	-	-	-	-	-	-	-	-	98,913	-	-	98,913				
Shares issued upon exercise of employee share options/restricted share units ("RSUs")	-	-	6,805,264	-	-	-	-	-	19,957	-	-	19,957				
Issuance of ordinary shares	-	-	87,400,000	7	-	-	-	-	10,856,517	-	-	10,856,524				
Treasury stock purchases	-	-	-	-	-	-	(29,462,760)	(1,178,755)	-	-	-	(1,178,755)				
Exercise of pre-funded warrants	-	-	53,599,890	4	-	-	-	-	(4)	-	-	(4)				
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	-	-	71,020	-	71,020				
Balance at December 31, 2021	-	-	737,944,914	58	494,552,051	38	(29,462,760)	(1,178,755)	17,935,752	75,994	4,152,472	20,985,559				

Note	Ordinary shares		Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital	Accumulated other comprehensive income		Total equity
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount		(loss)/income	Retained earnings	
		HK\$		HK\$		HK\$		HK\$		HK\$	HK\$	HK\$
As of January 1, 2022	-	-	737,944,914	58	494,552,051	38	(29,462,760)	(1,178,755)	17,935,752	75,994	4,152,472	20,985,559
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,213,525	1,213,525
Share-based compensation	-	-	-	-	-	-	-	-	97,251	-	-	97,251
Shares issued upon exercise of employee share options	-	-	1,197,536	-	-	-	-	-	6,052	-	-	6,052
Treasury share purchases	-	-	-	-	-	-	(79,579,000)	(2,731,027)	-	-	-	(2,731,027)
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	-	-	(18,540)	-	(18,540)
Balance at June 30, 2022	-	-	739,142,450	58	494,552,051	38	(109,041,760)	(3,909,782)	18,039,055	57,454	5,365,997	19,552,820

Note	Ordinary shares		Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital	Accumulated other comprehensive income	Retained earnings	Total equity
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
(unaudited)		HK\$		HK\$		HK\$		HK\$		HK\$		HK\$
As of January 1, 2021	-	-	590,139,760	47	494,552,051	38	-	6,960,369	4,974	1,342,262	8,307,690	
Profit for the period	-	-	-	-	-	-	-	-	-	1,696,190	1,696,190	
Share-based compensation	-	-	-	-	-	-	-	33,416	-	-	33,416	
Issuance of ordinary shares	-	-	87,400,000	7	-	-	-	10,856,518	-	-	10,856,525	
Exercise of Pre-funded warrants	-	-	53,599,890	4	-	-	-	(4)	-	-	-	
Shares issued upon exercise of employee share options	-	-	2,395,392	-	-	-	-	8,122	-	-	8,122	
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	-	2,954	-	2,954	
Balance at June 30, 2021	-	-	733,535,042	58	494,552,051	38	-	17,858,421	7,928	3,038,452	20,904,897	

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Note	Year Ended December 31,			Six months ended	
		2019	2020	2021	June 30,	
		HK\$	HK\$	HK\$	2021	2022
				HK\$	HK\$	
				(unaudited)		
Cash flows from operating activities						
Net income		165,664	1,325,523	2,810,210	1,696,190	1,213,525
Adjustments for:						
Depreciation and amortization	25	16,547	27,231	36,436	15,368	27,537
Expected credit loss expenses	6(a)	–	9,075	3,200	8,819	7,849
Share of loss from equity method investment		543	307	–	–	9,398
Impairment from equity method investment and other non-current assets		–	5,888	–	–	32,326
Foreign exchange losses/(gains)		7,539	11,493	(138,234)	(27,008)	(92,231)
Share-based compensation	16	15,967	32,573	98,913	33,416	97,251
Realized gain from short-term investments		(707)	(665)	–	–	(12,491)
Fair value (gains)/losses		–	–	(26)	–	6,867
Deferred income tax benefit	26	(1,576)	(13,146)	(21,431)	(8,791)	(534)
Amortisation of right-of-use assets		49,553	52,548	83,695	36,571	47,948
Changes in operating assets:						
Net (increase)/decrease in securities purchased under agreements to resell		–	–	(106,203)	–	106,203
Net (increase)/decrease in loans and advances		(1,101,785)	(14,645,752)	(10,765,123)	(34,368,174)	749,496
Net (increase)/decrease in accounts receivable from clients and brokers		(927,260)	(5,042,241)	(1,847,898)	(4,327,609)	799,777
Net (increase)/decrease in accounts receivable from clearing organizations		(128,125)	(939,848)	(717,193)	607,850	49,169
Net (increase)/decrease in accounts receivable from fund management companies and fund distributors		–	(297,622)	225,282	153,270	(48,197)
Net decrease/(increase) in interest receivable		32,535	(2,984)	(30,953)	(16,563)	(38,629)
Net (increase)/decrease in prepaid assets		(3,660)	1,048	(6,653)	(20,698)	156
Net decrease/(increase) in other assets		20,860	(156,222)	(105,145)	(3,318)	(485,889)
Changes in operating liabilities:						
Net increase/(decrease) in amounts due to related parties		25,037	83,429	(37,983)	(59,635)	12,708
Net increase in accounts payable to clients and brokers		3,697,534	33,673,301	16,130,249	20,794,806	15,589,859
Net increase in accounts payable to clearing organizations		–	324,266	69,516	512,718	965,964
Net increase/(decrease) in accounts payable to fund management companies and fund distributors		26,381	101,061	(70,752)	(31,236)	(7,145)
Net increase/(decrease) in payroll and welfare payable		33,990	217,200	213,981	(23,472)	66,425
Net (decrease)/increase in interest payable		(1,886)	4,974	9,866	8,649	(5,025)
Net decrease in operating lease liabilities		(38,704)	(38,077)	(79,544)	(31,120)	(32,540)
Net increase/(decrease) in securities sold under agreements to repurchase		1,590	5,451,447	(985,176)	182,982	(4,467,861)
Net increase/(decrease) in other liabilities		79,397	271,910	1,242,937	515,257	(473,827)
Net cash generated from/(used in) operating activities		1,969,434	20,456,717	6,011,971	(14,351,728)	14,118,089

Note	Year Ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	HK\$	HK\$	HK\$	HK\$ (unaudited)	HK\$
Cash flows from investing activities					
Proceeds from disposal of property and equipment and intangible assets	9	-	-	-	-
Purchase of property and equipment and intangible assets	(118,341)	(44,649)	(70,456)	(28,622)	(62,660)
Purchase of short-term investments	(285,784)	(206,793)	(1,169,715)	-	(3,361,817)
Proceeds from disposal of short-term investments	250,768	307,267	-	-	4,548,040
Acquisition of long-term investments	(6,709)	-	(23,394)	-	(235,434)
Placement of term deposits	-	(300,000)	-	-	-
Maturity of term deposits	-	-	300,000	300,000	-
Cash paid for acquisition, net of cash acquired	-	-	-	-	(102,008)
Net cash (used in)/generated from investing activities	(160,057)	(244,175)	(963,565)	271,378	786,121
Cash flows from financing activities					
Proceeds from public offering, net of issuance costs	1,259,317	2,339,718	10,856,524	10,856,525	-
Proceeds from exercise of employee share options	969	16,842	23,492	18,548	12,937
Proceeds from issuance of pre-funded warrants	-	2,035,104	-	-	-
Purchase of treasury stock	-	-	(1,178,755)	-	(2,731,027)
IPO loan borrowings (net)	-	300,199	(300,199)	-	-
Proceeds from other borrowings	6,764,524	23,808,006	53,483,435	50,788,801	37,827,127
Repayment of other borrowings	(6,873,188)	(20,092,973)	(52,313,417)	(26,942,607)	(39,827,600)
Payment of other financing expenses	-	-	(16,862)	-	(1,570)
Net cash generated from/(used in) financing activities	1,151,622	8,406,896	10,554,218	34,721,267	(4,720,133)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(44,666)	(1,117)	167,130	30,620	89,218
Net increase in cash, cash equivalents and restricted cash	2,916,333	28,618,321	15,769,754	20,671,537	10,273,295
Cash, cash equivalents and restricted cash at beginning of the year/period	11,987,104	14,903,437	43,521,758	43,521,758	59,291,512
Cash, cash equivalents and restricted cash at end of the year/period	14,903,437	43,521,758	59,291,512	64,193,295	69,564,807
Cash, cash equivalents and restricted cash					
Cash and cash equivalents	362,574	1,034,668	4,555,096	1,773,938	6,300,400
Cash held on behalf of clients	14,540,863	42,487,090	54,734,351	62,419,357	63,262,436
Restricted Cash	-	-	2,065	-	1,971
Cash, cash equivalents and restricted cash at end of the year/period	14,903,437	43,521,758	59,291,512	64,193,295	69,564,807
Non-cash financing activities					
Accretion to preferred shares redemption value	12,309	-	-	-	-
Supplemental disclosure					
Interest paid	(89,238)	(181,706)	(367,036)	(238,318)	(70,852)
Income tax paid	(15,117)	(16,250)	(102,890)	(79,825)	(216,122)
Cash paid for amounts included in operating lease liabilities	(50,629)	(58,686)	(89,427)	(39,704)	(52,028)

COMPANY BALANCE SHEETS AS OF DECEMBER 31, 2019, 2020 AND 2021 AND JUNE 30, 2022

(In thousands)

	Note	As of December 31,			As of
		2019	2020	2021	June 30,
		HK\$	HK\$	HK\$	2022
					HK\$
ASSETS					
Cash and cash equivalents		7,990	37,349	37,574	38,670
Amounts due from subsidiaries and variable interest entities ("VIEs") and VIEs' subsidiaries	31	737,652	4,184,401	6,969,446	4,884,398
Prepaid assets		191	–	–	–
Short-term investments	4	–	–	1,169,741	–
Other current assets		11,765	9,624	21,589	21,946
Total current assets		757,598	4,231,374	8,198,350	4,945,014
Investments in subsidiaries and VIEs and VIEs' subsidiaries	1	1,823,885	5,086,681	13,514,216	14,949,366
Other non-current assets		102	31	31	31
Total non-current assets		1,823,987	5,086,712	13,514,247	14,949,397
Total assets		2,581,585	9,318,086	21,712,597	19,894,411
LIABILITIES					
Amounts due to subsidiaries and VIEs and VIEs' subsidiaries	31	13,675	15,833	21,955	12,542
Interest payables		–	695	131	139
Borrowings	10	–	977,735	689,869	290,000
Accrued expenses and other current liabilities		9,437	9,013	10,694	35,888
Total current liabilities		23,112	1,003,276	722,649	338,569
Other non-current liabilities		9,920	7,120	4,389	3,022
Total Non-current liabilities		9,920	7,120	4,389	3,022
Total liabilities		33,032	1,010,396	727,038	341,591

	Note	As of December 31,			As of
		2019	2020	2021	June 30,
		HK\$	HK\$	HK\$	2022
					HK\$
SHAREHOLDERS' EQUITY					
Class A ordinary shares (US\$0.00001 par value; 48,700,000,000, 48,700,000,000, 48,700,000,000 and 48,700,000,000 shares authorized as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively; 459,090,941, 590,139,760, 737,944,914 and 739,142,450 shares issued and outstanding as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)	13	36	47	58	58
Class B ordinary shares (US\$0.00001 par value; 800,000,000, 800,000,000, 800,000,000 and 800,000,000 shares authorized as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively; 544,552,051, 494,552,051, 494,552,051 and 494,552,051 shares issued and outstanding as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)	13	42	38	38	38
Additional paid-in capital		2,536,182	6,960,369	17,935,752	18,039,055
Treasury stock (nil, nil, 29,462,760 and 109,041,760 shares as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively)	13	–	–	(1,178,755)	(3,909,782)
Accumulated other comprehensive (loss)/income		(4,446)	4,974	75,994	57,454
Retained earnings		16,739	1,342,262	4,152,472	5,365,997
Total shareholders' equity		2,548,553	8,307,690	20,985,559	19,552,820
Total liabilities and shareholders' equity		2,581,585	9,318,086	21,712,597	19,894,411

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION, 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 entities ("VIEs") and subsidiaries of the VIEs (collectively referred to as the "Group"). The Group principally engages in online financial services including securities and derivative trades brokerage, margin financing and fund distribution services based on internally developed software and digital platform "Futubull" and "Moomoo". The Group also provides financial information and online community services, etc. The Company completed its IPO on March 8, 2019 on the Nasdaq Global Market. Each American Depositary Shares ("ADSs") of the Company represents eight Class A ordinary shares.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Company's principal subsidiaries, consolidated VIE are as follows:

Company name	Country/place and date of Incorporation/Establishment	Registered/Issued and paid-up capital	Atributable equity interest of the Group				Statutory auditors				
			December 31,		June 30,		December 31,				
			2019	2020	2021	2022	2019	2020	2021		
Subsidiaries	Principal activities										
Futu Securities International (Hong Kong) Limited ("Futu Securities")	Hong Kong, April 17, 2012	HK\$5,200,000,000	100%	100%	100%	100%	Financial services	PricewaterhouseCoopers Certified Public Accountants	PricewaterhouseCoopers Certified Public Accountants	PricewaterhouseCoopers Certified Public Accountants	PricewaterhouseCoopers Certified Public Accountants
Futu Securities (Hong Kong) Limited	Hong Kong, May 2, 2014	HK\$5,000,000	100%	100%	100%	100%	Investment holding	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants
Futu Network Technology Limited	Hong Kong, August 17, 2015	HKD10,000,000	100%	100%	100%	100%	Research and development and technology services	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants	Gary K. K. Leung & Co. Accountants
Futu Network Technology (Shenzhen) Co., Ltd.	Shenzhen, PRC, October 14, 2015	USD20,000,000	100%	100%	100%	100%	Research and development and technology services	Shenzhen Mingguan Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants
Shen Si Network Technology (Beijing) Co., Ltd. ("Shen SI")	Beijing, PRC, September 15, 2014	USD3,000,000	100%	100%	100%	100%	No substantial business	Accountants	Accountants	Accountants	Accountants
Moomoo Financial Inc. (previous name: Futu Inc.)	Delaware, USA, December 17, 2015	USD2	100%	100%	100%	100%	Financial services	Baker Tilly US, LLP	Baker Tilly US, LLP	Baker Tilly US, LLP	Baker Tilly US, LLP
Futu Clearing Inc.	Delaware, USA, August 13, 2018	USD0.1	100%	100%	100%	100%	Financial services	Baker Tilly US, LLP	Baker Tilly US, LLP	Baker Tilly US, LLP	Baker Tilly US, LLP
Moomoo Financial Singapore Pte. Ltd ⁽¹⁾ (previous name: Futu Singapore Pte. Ltd)	Singapore, December 17, 2019	SGD18,000,000	N/A	100%	100%	100%	Financial services	N/A	N/A	N/A	BDO LLP, Singapore
Futu Securities (Australia) Ltd.	New South Wales, Australia, February 15, 2001	AUD23,600,203	N/A	N/A	100%	100%	Financial services	Pitcher Partners	Pitcher Partners	Pitcher Partners	Hall Chadwick
VIE Shenzhen Futu Network Technology Co., Ltd. ⁽²⁾ ("Shenzhen Futu")	Shenzhen, PRC, December 18, 2007	RMB10,000,000	100%	100%	100%	100%	Research and development and technology services	Shenzhen Mingguan Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants	Shenzhen Yuanfeng Certified Public Accountants

Notes:

- These subsidiaries changed company names in June 2022.
- Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of the Company and held 85% and 15% 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.

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 VIEs and subsidiary of the VIEs 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 VIEs and subsidiaries of the VIEs have been eliminated upon consolidation.

VIE Companies

(1) *Contractual Agreements with VIEs*

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") between the Company's PRC subsidiary, Shen Si, and the VIEs. Through the Contractual Agreements, the VIEs are effectively controlled by the Company.

Shareholders' Voting Rights Proxy Agreements. Pursuant to the Shareholders' Voting Rights Proxy Agreements, each shareholder of VIEs irrevocably authorized Shen Si or any person(s) designated by Shen Si to exercise such shareholder's rights in VIEs, 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 VIEs. The shareholders' voting rights proxy agreements remain 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 Agreements. Pursuant to the Business Operation Agreements, VIEs and their shareholders undertake that without Shen Si's prior written consent, VIEs shall not enter into any transactions that may have a material effect on VIEs' assets, business, personnel, obligations, rights or business operations. VIEs and their shareholders shall elect directors nominated by Shen Si and such directors shall nominate officers designated by Shen Si. The business operation agreements 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.

Equity Interest Pledge Agreements. Pursuant to the Equity Interest Pledge Agreements, each shareholder of VIEs 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 VIEs and their shareholders discharge all their obligations under the contractual arrangements.

Exclusive Technology Consulting and Services Agreements. Under the Exclusive Technology Consulting and Services Agreements between Shen Si and the VIEs, Shen Si has the exclusive right to provide VIEs 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, VIEs shall not accept any technology consulting and services covered by these agreements from any third party. VIEs agree 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 these agreements or otherwise agreed with Shen Si, these agreements 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 Agreements. Pursuant to the Exclusive Option Agreements, each shareholder of VIEs 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 VIEs. 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 VIEs 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 VIEs, (ii) transfer or otherwise dispose of his or her equity interests in VIEs, (iii) change VIEs' registered capital, (iv) amend VIEs' articles of association, (v) liquidate or dissolve VIEs, or (vi) distribute dividends to the shareholders of VIEs. In addition, VIEs undertake that, without the prior written consent of Shen Si, they will not, among other things, dispose of VIEs' 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 their assets, or transfer or otherwise dispose of their material assets. Unless otherwise terminated by Shen Si, these agreements 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 VIEs and their subsidiary taken as a whole, which were included in the Group's consolidated financial statements with intercompany balances and transactions eliminated between the VIEs and their subsidiary:

	As of December 31,			As of	
	2019	2020	2021	June 30,	
				2022	
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>	
Total assets	68,480	162,897	254,602	296,738	
Total liabilities	73,271	145,693	176,204	179,039	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>	
				<i>(unaudited)</i>	
Total operating revenue	65,681	103,433	210,161	86,930	144,398
Net income	8,807	20,727	52,741	22,456	37,236
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(HK\$ in thousands)			(HK\$ in thousands) (unaudited)	
Net cash (used in)/ generated from operating activities	(2,502)	(14,847)	2,340	(3,204)	26,055
Net cash generated from/ (used in) investing activities	2,233	17,104	(3,327)	–	–
Net cash generated from financing activities	–	–	–	–	7,388
Net (decrease)/increase in cash and cash equivalents	(269)	2,257	(987)	(3,204)	33,443
Cash and cash equivalents at beginning of the year/period	1,750	1,481	3,738	3,738	2,751
Cash and cash equivalents at end of the year/period	1,481	3,738	2,751	534	36,194

Transactions between the VIE and other entities in the consolidated group

As of December 31, 2019, 2020 and 2021 and June 30, 2022, total assets include amounts due from internal companies in the consolidated group in the amount of HK\$36,759 thousand, HK\$117,085 thousand, HK\$190,424 thousand and HK\$211,692 thousand, respectively. Total liabilities include amounts due to the internal companies in the amount of HK\$52,097 thousand, HK\$72,506 thousand, HK\$80,435 thousand and HK\$91,479 thousand, respectively. For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the VIE earned inter-company revenues in the amounts of HK\$63,742 thousand, HK\$94,500 thousand, HK\$187,774 thousand, HK\$75,000 thousand and HK\$131,834 thousand, respectively. In addition, for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the repayment of advances to Group companies by the VIE are in the amount of HK\$32,740 thousand, nil, nil, nil and nil, and VIE proceeded from advances from Group companies in the amount of HK\$32,740 thousand, nil, nil, nil and HK\$7,388 thousand, respectively. All of these balances and transactions have been eliminated in consolidation.

Under the Contractual Agreements with the VIEs, the Company has the power to direct activities of the VIEs and VIEs' subsidiaries, and can have assets transferred out of the VIEs and VIEs' subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIEs and there is no asset of the VIEs that can only be used to settle obligations of the VIEs and VIEs' subsidiaries, except for registered capital of the VIEs and their subsidiary amounting to RMB10 million as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. Since the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs 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 VIEs. However, as the Company is conducting certain businesses through its VIEs and VIEs' 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 VIEs and their 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 VIEs and VIEs' subsidiaries in the consolidated financial statements.

On March 15, 2019, the Foreign Investment Law was formally passed by the thirteenth National People's Congress and it was taken effect on January 1, 2020. The Foreign Investment Law replaces the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Cooperative Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate contractual arrangements such as those we rely on as a form of foreign investment. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors investing through any other methods under laws, administrative regulations or provisions prescribed by the State Council." Future laws, administrative regulations or provisions prescribed by the State Council may possibly regard Contractual Arrangements as a form of foreign investment. In the event that the State Council in the future promulgates laws and regulations that deem investments made by foreign investors through contractual arrangements as "foreign investment", the Group's ability to use the contractual arrangements with its VIEs and the Group's ability to conduct business through the VIEs could be severely limited.

The Company's ability to control the VIEs also depends on the power of attorney Shen Si has to vote on all matters requiring shareholders' approvals in the VIEs. 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 VIEs 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 VIEs or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIEs. 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 VIEs is remote.

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, costs and expenses during the reported period in the consolidated financial statements and accompanying notes. These accounting estimates reflected in the Group's consolidated financial statements mainly include, but are not limited to, the estimation of the expected usage and the estimated relative standalone selling price of the incentive points and coupons, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, expected credit losses on financial instruments, assessment for impairment of long-term investments and other non-current assets, present value for expected future leasing payment, contingency reserve, provision of income tax and valuation allowance for deferred tax asset, and valuation of financial instruments measured at fair value. 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 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 consolidated balance sheets.

Current Expected Credit Losses

Prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The identified impairment loss was immaterial prior to January 1, 2020.

On January 1, 2020, the Group adopted FASB ASC Topic 326 – "Financial Instruments – Credit Losses" ("ASC Topic 326"), which replaces the incurred loss methodology with the current expected credit loss ("CECL") methodology. The new guidance applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets.

The Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no material impact on the Group's retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP. The Group's in-scope assets are primarily loans and advances that are collateralized by client securities and the collateral is required to be maintained at specified minimum levels at all times. The Group monitors margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. The Group applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient, when the Group reasonably expects that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial assets. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. For the year ended December 31, 2020, 2021 and six months ended June 30, 2021 and 2022, expected credit loss expenses of HK\$9,075 thousand, HK\$3,200 thousand, HK\$8,819 thousand and HK\$7,849 thousand, resulting from the assessment of credit losses for the loans and advances under ASC Topic 326 at period-end were recognized in "Others, net" in the consolidated statements of comprehensive income, respectively.

An allowance for credit losses on other financial assets, including receivables from clients, brokers, clearing organizations and fund management companies and fund distributors, is estimated based on the aging of these financial assets.

Receivables from clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within a few days from the trade date. Because these receivables involve customers who have no recent history of default, and the settlement periods are usually short, the credit risk arising from receivables from clients is considered low. In respect of the receivables from brokers, clearing organizations and fund management companies and fund distributors, the management considers that these receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation. As a result, the allowance for credit losses for other financial assets were immaterial for all periods presented.

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' monies 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.

Term Deposit

Term deposit consists of bank deposits with an original maturity of greater than three months.

Restricted Cash

The Group is required to maintain restricted cash deposits for certain property leases. These funds are restricted and have been classified as such on our consolidated balance sheets due to the nature of restriction.

Short-term Investments

The Group classifies certain financial assets with highly liquidity and original maturities less than twelve months as short-term investments. The Group's short-term investments consist of investments in available-for-sale financial securities, money market funds and financial assets at fair value through profit or loss. To estimate the fair value of available-for-sale financial securities, the Group refers to the quoted rate of return provided by financial institutions using discounted cash flow method, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2. The Group values its money market funds and financial assets at fair value through profit or loss using quoted prices in active markets for these investments, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Transactions involving purchases of securities under agreements to resell (resell agreements) and transactions involving sales of securities under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions.

Under resell agreements, the Group pays cash to counterparties and receives securities as collateral. These agreements are carried at amounts at which the securities will subsequently be resold, and the interest income received by the Group is recorded as interest income in the consolidated statements of comprehensive income.

Under repurchase agreements, the Group receives cash from counterparties and provides securities as collateral. These agreements are carried at amounts at which the securities will subsequently be repurchased, and the interest expense incurred by the Group is recorded as interest expenses in the consolidated statements of comprehensive income.

Loans and advances

Loans and advances include margin loans, IPO loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for credit losses. Revenues earned from the loans and advances are included in interest income.

Margin loans are extended to clients on a demand basis and are not committed facilities. Securities owned by the customers, which are not recorded in the consolidated balance sheets, are held as collateral for amounts due on the margin loans.

IPO loans for subscription of new shares are normally settled within one week from the drawdown date. Once IPO stocks are allotted, the Group 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.

Other advances mainly consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral.

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.

The balances will be written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trading Receivables from and Payables to Clients

Trading receivables from clients include amounts due on brokerage transactions on a trade-date basis. Trading payables to clients represent the closing cash balance to the customers, which mainly include cash deposits and amounts due on brokerage transactions on a trade date basis.

Receivables from and Payables to Brokers, Clearing Organizations and Fund Management Companies and Fund Distributors

Receivables from and payables to brokers, clearing organizations and fund management companies and fund distributors include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities, derivatives or funds trades not delivered by the Group to the purchaser by the settlement date and cash deposits, and amounts payable for securities, derivatives or funds trades not received by the Group 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 organizations.

The Group borrowed margin loans from executing brokers, with the benchmark interest rate plus premium differentiated depending on the amount borrowed, and immediately lent to margin financing clients. Margin loans borrowed is recognized in the payables to brokers.

The Group's policy is to net the receivables from and payables to clearing organizations according to ASC Topic 210-20, when all of the following conditions are met:

- (a) Each of two parties owes the other determinable amounts.
- (b) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (c) The reporting party intends to set off.
- (d) The right of setoff is enforceable at law.

Interest Receivable and Payable

Interest receivable which is included in receivables is calculated based on the contractual interest rate of bank deposit, loans and advances, securities loaned and receivables on an accrual basis, and is recorded as interest income as earned.

Interest payable which is included in payables is calculated based on the contractual interest rates of payables, borrowings, securities borrowed and securities sold under agreements to repurchase on an accrual basis, and is recorded as interest expense when incurred.

Securities Borrowed and Securities Loaned

Securities borrowed transactions require the Group to provide counterparties with collateral, which may be in the form of cash, or other securities. With respect to securities loaned, the Group receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Receivables and payables related to securities borrowed and securities loaned are included at receivables from and payables to brokers or clients in the consolidated balance sheets. Securities lending fees received and securities borrowing fees paid by the Group are included in interest income and interest expense, respectively, in the consolidated statements of comprehensive income.

Leases

In an operating lease, a lessee obtains control of only the use of the underlying asset, but not the underlying asset itself. An operating lease is recognized as a right-of-use asset with a corresponding liability at the date which the leased asset is available for use by the Group.

The Group's operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company makes an accounting policy election not to separate non-lease components to measure the lease liability and lease asset.

The lease liability is initially measured at the present value of the future lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. The lease payments are discounted using the rate implicit in the lease or, if not readily determinable, the Group's secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of debt issued with a similar risk profile as the Group and a duration similar to the lease term. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

After commencement of the operating lease, the Group recognizes lease expenses on a straight-line basis over the lease term. The subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement. The right-of-use asset is subsequently measured at cost less accumulated amortization and any impairment provision. The amortization of the right-of-use asset represents the difference between the straight-line lease expense and the accretion of interest on the lease liability each period. The interest amount is used to accrete the lease liability and to amortize the right-of-use asset. There is no amount recorded as interest expense.

All of the Group's leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the weighted-average remaining lease term on these leases is approximately four years, four years, three years and three years, respectively, and the weighted-average discount rate used to measure the lease liabilities was approximately 4.75%, 4.75%, 4.71% and 4.69%, respectively.

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, right-of-use assets obtained under operating leases was HK\$211,170 thousand, HK\$85,827 thousand, HK\$108,949 thousand and HK\$7,642 thousand, respectively. The Group's lease agreements do not contain any residual value guarantees, restrictions or covenants.

Refundable Deposit

Refundable deposit is included in other assets in the consolidated balance sheets. As a clearing member firm of securities and derivatives clearing organizations in Hong Kong, Singapore and the U.S., the Group is also exposed to clearing member credit risk. These clearing organizations require member firms to deposit cash to a clearing fund. If a clearing member defaults in its obligations to the clearing organizations 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. Many clearing organizations of which the Group is member have 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 additional funds.

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.

Category	Estimated useful lives	Residual rate
Computers equipment	3-5 years	5%
Furniture and fixtures	3-5 years	5%
Office equipment	3-5 years	5%
Office building	30 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, licences and other intangible assets.

Finite-lived intangible assets are carried at historical cost less accumulated amortization and accumulated impairment losses, if any. Amortization of finite-lived intangible assets is calculated using the straight-line method to allocate costs over the estimated useful lives. Pursuant to topic ASC 350 Intangibles — Goodwill and Other, the useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. If an income approach is used to measure the fair value of the license, in determining the useful life of the intangible asset for amortization purposes, the period of expected cash flows used to measure the fair value of the license should be considered. The following is a summary of estimated useful lives:

Category	Estimated useful lives
Computer software	5 years
Licenses ⁽¹⁾	10 years

- (1) The income approach was used to measure the fair value of the licenses, and the period of expected cash flows used to measure the fair value of the licenses is considered by the Group in determining the useful lives of the related licenses. Based on historical performance, market prospects and other macroeconomic conditions, the Group estimates that the useful lives of the related licenses are 10 years.

The other licenses recognised as infinite-lived intangible assets consist of an insurance broker license and a financial services license. The Group obtained an insurance broker license through acquiring a member of the Hong Kong Professional Insurance Brokers Association. The Group obtained some financial securities licenses via acquisition of subsidiaries. Such intangible assets were recognised as indefinite-lived as the cash flows were expected to continue indefinitely on the brokerage and financial service business in above regions.

The Group had held a futures trading right as a clearing member firm of HKEx in order to trade futures through the trading facilities of the Stock Exchange, and has recognized it as intangible assets. As trading right has an indefinite useful life and have no foreseeable limit to the period over which the Group can use to generate net cash flows, it will not be amortised until their useful lives are determined to be finite.

The aforementioned indefinite-lived intangible assets are carried at cost less accumulated impairment losses. The Group evaluates the remaining useful life of an indefinite-lived intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful lives. The Group will not amortize the indefinite-lived intangible assets until their useful lives are determined to be finite. An intangible asset that is not subject to amortization will be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Long-term investments**1) Equity method investments**

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

In accordance with ASC 323 Investment – Equity Method and Joint Ventures, the Group accounts for equity method investments over which the Group has significant influence but does not own a majority of the equity interest or otherwise controls and the investments are either common stock or in substance common stock using the equity method. For the investments in limited partnerships, the equity method of accounting for investments is generally appropriate for accounting by limited partners. According to ASC 323-30-S99-1, the investments in all limited partnerships should be accounted for pursuant to paragraph 970-323-25-6. That guidance requires the use of the equity method unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies." Investments of more than 3 to 5 percent are generally viewed to be more than minor. The Group's share of the investee's profit and loss is recognized in the consolidated statements of comprehensive income of the period.

The carrying amount of equity method investments is tested for impairment whenever there is an indication that the carrying amount may be impaired in accordance with the policy described in "Impairment of long-lived assets".

2) Equity investments without readily determinable fair values

In accordance with ASC 321 Investment – Equity Securities, for those equity investments without readily determinable fair values, the Group elects to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of the equity investment are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Pursuant to ASC 321, for those equity investments that the Group elects to use the measurement alternative, the Group makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and fair value.

Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment by comparing carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. Impairment charge recognized for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 was nil, HK\$5,888 thousand, nil, nil and nil, respectively.

Treasury stock

The Group accounted for those shares repurchased as treasury stock at cost of purchase, Treasury stock, and is shown separately in the shareholders' equity as the Group has not yet decided on the ultimate disposition of those shares acquired. When the Group decides to cancel the treasury stock, the difference between the original issuance price and the repurchase price is debited into additional paid-in capital. Refer to Note 13 for details.

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.

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, restricted cash, receivables from and payables to clients, brokers, clearing organizations and fund management companies and fund distributors, accrued interest receivable, accrued interest payable, amounts due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Term deposit, loans and advances, borrowings, securities purchased under agreements to resell, securities sold under agreements to repurchase and operating lease liabilities are carried at amortized cost. The carrying amount of term deposit, loans and advances, borrowings and operating lease liabilities approximate their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Short-term investments are measured at fair value.

The Group's non-financial assets, such as operating lease right-of-use assets, long-term investments, property and equipment and intangible assets, would be measured at fair value only if they were determined to be impaired.

Revenue Recognition**(1) Brokerage commission and handling charge income**

Brokerage commission income earned for executing transactions is accrued on a trade-date basis.

Handling charge income arise from the services such as clearing and settlement services, subscription and dividend collection handling services, etc., are accrued on a trade-date basis.

Brokerage commission and handling charge income are recognised at a point in time when the service has been passed to the customer.

(2) Interest income

The Group earns interest income primarily in connection with its margin financing and securities lending services, IPO financing, bridge loan and deposits with banks, which are recorded on an accrual basis and are included in interest income in the consolidated statements of comprehensive income. Interest income is recognized as it is accrued over time using the effective interest method.

(3) Other income

Other income consists of enterprise public relations service charge income provided to corporate clients, underwriting fee income, IPO subscription service charge income, currency exchange service income from clients, income from market data service and funds distribution service income from fund management companies, etc.

Enterprise public relations service charge income is charged to corporate clients by providing platform to post their detailed stock information and latest news in Futubull 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).

Underwriting fee income is generated from investment banking business primarily by providing equity sub-underwriting to corporate issuers.

IPO subscription service charge income is derived from provision of new share subscription services in relation to IPOs in the Hong Kong capital market.

Currency exchange service income is charged to the Group's paying clients for providing currency exchange service.

Market information and data income is charged to Futubull and Moomoo app users for market data service.

Funds distribution service income is charged to fund management companies for providing fund products distribution service to Futu's individual clients. The Group, as an intermediary would receive subscription fees from fund management companies as agreed in the service contracts.

For enterprise public relations service charge income, funds distribution service income, market information and data income and ESOP management service income, the service revenues are recognized ratably over the term of the service contracts.

For IPO subscription service charge income, underwriting fee income and currency exchange service income, the Group recognizes the revenues upon the time when the services are rendered to customers.

Customer Loyalty Program

The Group operates a customer loyalty program to its customers that offer various incentives in the form of incentive points and coupons for redemption of free or discounted goods or services.

For the incentives generated from current sales transaction, the Group defers a portion of commission income with corresponding liability reflected as contract liability attributable to the incentives. The contract liability is determined by management based on the expected usage of the incentive points and coupons, and their estimated relative standalone selling price based on the related goods and services. Significant judgment was made by management in determining the expected usage and estimated relative standalone selling price of the incentive points and coupons, derived from historical trading volume, commission rates and redemption patterns, and an evaluation as to whether historical activities are representative of the expected future activities.

For the incentives offered for future sales transaction, the Group nets a portion of brokerage commission income attributable to the incentives when points or coupons are actually redeemed.

For the incentives not offered for future sales transaction, the Group considers them as a payment of other distinct goods that would be granted to clients. Such incentives are accounted for as selling and marketing expense with corresponding liability reflected as other liability in the consolidated balance sheet.

The table below presents the deferred or netted brokerage commission income related to the customer loyalty program for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022.

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>	
				<i>(unaudited)</i>	
Brokerage commission income, gross	441,669	1,807,203	3,640,845	1,982,242	1,798,892
Less: revenue netted or deferred	<u>(89,044)</u>	<u>(276,155)</u>	<u>(493,235)</u>	<u>(279,758)</u>	<u>(180,255)</u>
Brokerage commission income, net	<u>352,625</u>	<u>1,531,048</u>	<u>3,147,610</u>	<u>1,702,484</u>	<u>1,618,637</u>

As of December 31, 2019, 2020 and 2021 and June 30, 2022, contract liabilities recorded related to the customer loyalty program were HK\$2,126 thousand, HK\$8,249 thousand and HK\$8,968 thousand and HK\$7,143 thousand, respectively. The Group expects to recognize the revenue when points and coupons are actually redeemed. Historically, the revenue was usually recognized within 1-3 years from the time the contract liability was first recognized.

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 for securities and derivative trades in stock and derivative markets as the Group makes securities and derivative trades with these brokers as principal.

Handling and settlement fee is charged by HKEx or executing brokers 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 consist of interest expenses of borrowings from banks, other licensed financial institutions and other parties paid to fund the Group's margin financing business, securities borrowing business and IPO financing business.

Processing and Servicing Costs

Processing and servicing costs consist of market information and data fee, data transmission fee, cloud service fee, system cost, 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. The nature of system cost mainly represents for the fee to access and use the systems paid to software providers.

Research and Development Expenses

Research and development expenses consist of expenses related to developing transaction platform and website like Futubull app and other products, including payroll and welfare, rental expenses and other related expenses for personnel engaged in research and development activities. 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 income.

General and Administrative Expenses

General and administrative expenses consist of payroll, rental, 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, expected credit loss expenses, gain or loss from investments and impairment from long-term investments and other non-current assets for all periods presented.

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 income.

Share-Based Compensation

The Company follows ASC 718 to determine whether a share option and a restricted share units should be classified and accounted for as a liability award or equity award. All share-based awards to employees and directors classified as equity awards, such as stock options and restricted share units, 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 modification of the terms or conditions of the existing shared-based award is treated as an exchange of the original award for a new award. The incremental compensation expenses are equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For stock options already vested as of the modification date, the Group immediately recognized the incremental value as compensation expenses. For stock options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these stock options.

The Company determined the fair value of the restricted share units with reference to the fair value of the underlying shares as of the grant date. The Company utilizes the binomial option pricing model to estimate the fair value of stock options granted, with the assistance of an independent valuation firm.

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 16 for further discussion on share-based compensation.

Fair Value of Preferred Shares and Pre-IPO Ordinary Shares

Shares of the Company, which did 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 pre-IPO ordinary shares. The method treats preferred shares and pre-IPO 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 pre-IPO 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 IPO, 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 consolidated statements of comprehensive 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.

(2) *Uncertain tax positions*

The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, the Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

Net income per share

Basic net income per share is computed by dividing net 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 income per share is calculated by dividing net 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 and vesting of restricted share units using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net 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 has been identified as the Chief Executive Officer who 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. 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 financial instruments. The Group is not exposed to significant transactional foreign currency risk since almost all of its transactions, assets and liability are denominated in Hong Kong dollars and U.S. dollars and 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 income. At the same time, the Group is exposed to translational foreign currency risk since some of the Company's major 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 income. The Group enters into currency futures contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. The overall impact of the currency risk of other foreign currency assets held by the Group other than U.S. dollars and Renminbi is not significant.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Group had RMB-denominated net liabilities of HK\$94.3 million, net liabilities of HK\$262.9 million, net assets of HK\$2,374.8 million and net assets of HK\$2,378.5 million, respectively. We estimate that a 10% depreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2019, 2020 and 2021 and June 30, 2022, would result in an increase of US\$1.2 million, an increase of US\$3.4 million, a decrease of US\$30.5 million and a decrease of US\$30.3 million, respectively, in the Group's pre-tax profit for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022. We estimate that a 10% appreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2019, 2020 and 2021 and June 30, 2022 would result in a decrease of US\$1.2 million, a decrease of US\$3.4 million, an increase of US\$30.5 million and an increase of US\$30.3 million, respectively, in the Group's pre-tax profit for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022.

(2) Credit risk

Cash held on behalf of clients are segregated and deposited in financial institutions as required by rules mandated by the Group's primary regulators. These financial institutions are of sound credit ratings, therefore management believes that there is no significant credit risk related to cash held on behalf of clients.

The Group's securities and derivative trades 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 and derivatives clearing organizations. 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 fail 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.

For cash management purposes, the Group enters into short-term securities sold under agreements to repurchase transactions ("repos") in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Group attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group as permitted under contractual provisions.

Concentrations of Credit Risk

The Group's exposure to credit risk associated with its brokerage 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, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, 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, 2019, 2020 and 2021 and June 30, 2022, the Group did not have any material concentrations of credit risk within or outside the ordinary course of business.

(3) Interest rate risk

Fluctuations in market interest rates may negatively affect the Group's financial condition and results of operations. The Group are exposed to floating interest rate risk on cash deposit and floating rate borrowings. We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax profit or loss. The model includes all interest-sensitive assets and liabilities. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax profit or loss. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of a simulated change in interest rates. The results of the simulations based on the Group's financial position as of June 30, 2022 indicate that a gradual 1% (100 basis points) increase/decrease in interest rates over a 12-month period would have increased/decreased the Group's profit before tax by approximately HK\$346.8 million (US\$44.3 million), depending largely on the extent and timing of possible changes in floating rates.

Recent Accounting Pronouncements

In June 2016, the 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 is effective on January 1, 2020. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which the group is required to recognize an allowance based on its estimate of expected credit loss. In November 2018, FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, further clarified the scope of the guidance in the amendments in ASU 2016-13. In May 2019, FASB issued ASU No. 2019-05, Financial instrument–Credit Losses (Topic 326), Targeted Transition Relief, which provides an irrevocably fair value option to elect for eligible instruments. In November 2019, FASB issued ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments–Credit Losses, which clarified and improved various aspects of ASU 2016-13. In March 2020, FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, which improves and clarifies various financial instruments topics, including the current expected credit losses standard. As of January 1, 2020, the Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no impact on the Group's retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP.

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 is effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The update eliminates the requirement to disclose: (a) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (b) an entity's policy for timing of transfers between levels; (c) and an entity's valuation processes for Level 3 fair value measurements. The Group adopted ASU 2018-13 on January 1, 2020, and the adoption had no material impact on the Group's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income taxes (Topic 740)–Simplifying the accounting for income taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Group adopted the ASU on January 1, 2021, which did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting if certain criteria are met. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance is effective immediately and the amendments may be applied prospectively through December 31, 2022. The adoption did not have a material accounting impact on the Group's consolidated financial position or results of operations.

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 3), financial assets and financial liabilities measured at fair value as of December 31, 2019, 2020 and 2021 and June 30, 2022. 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, 2019				
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	–	93,773	–	93,773
	<u>–</u>	<u>93,773</u>	<u>–</u>	<u>93,773</u>
Financial Assets At Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial Assets At Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	1,169,741	–	–	1,169,741
Other financial assets ⁽¹⁾	–	598	–	598
	<u>1,169,741</u>	<u>598</u>	<u>–</u>	<u>1,170,339</u>
Total financial assets, measured at fair value	<u>1,169,741</u>	<u>598</u>	<u>–</u>	<u>1,170,339</u>
Financial Assets and Liabilities At Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	17,501	–	–	17,501
	<u>17,501</u>	<u>–</u>	<u>–</u>	<u>17,501</u>
Total financial assets, measured at fair value	<u>17,501</u>	<u>–</u>	<u>–</u>	<u>17,501</u>
Other financial liabilities ⁽¹⁾	6,134	7,460	–	13,594
	<u>6,134</u>	<u>7,460</u>	<u>–</u>	<u>13,594</u>
Total financial liabilities, measured at fair value	<u>6,134</u>	<u>7,460</u>	<u>–</u>	<u>13,594</u>

As of December 31, 2020	Effects of offsetting on the balance sheet		Related amounts not offset			
	Gross amount	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
<i>(HK\$ in thousands)</i>						
Financial Assets						
Amounts due from clearing organizations	12,614,684	(11,370,756)	1,243,928	–	–	1,243,928
Financial liabilities						
Amounts due to clearing organizations	11,695,022	(11,370,756)	324,266	–	–	324,266
As of December 31, 2021	Effects of offsetting on the balance sheet		Related amounts not offset			
	Gross amount	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
<i>(HK\$ in thousands)</i>						
Financial Assets						
Amounts due from clearing organizations	7,596,090	(5,634,969)	1,961,121	–	–	1,961,121
Financial liabilities						
Amounts due to clearing organizations	6,028,751	(5,634,969)	393,782	–	–	393,782
As of June 30, 2022	Effects of offsetting on the balance sheet		Related amounts not offset			
	Gross amount	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
<i>(HK\$ in thousands)</i>						
Financial Assets						
Amounts due from clearing organizations	10,857,308	(8,941,436)	1,915,872	–	–	1,915,872
Financial liabilities						
Amounts due to clearing organizations	10,301,182	(8,941,436)	1,359,746	–	–	1,359,746

4. SHORT-TERM INVESTMENTS

The Group's short-term investments are presented on the consolidated balance sheets as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Available-for-sale financial securities	93,773	–	–	–
Money market funds	–	–	1,169,741	–
Financial assets at fair value through profit or loss	–	–	–	17,501
Total	93,773	–	1,169,741	17,501

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the Group recorded realized gain of HK\$707 thousand, HK\$665 thousand, nil, nil and HK\$12,491 thousand related to short-term investments in the consolidated statements of comprehensive income, respectively.

The Company's short-term investments are presented on the balance sheets as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Money market funds	–	–	1,169,741	–
Total	–	–	1,169,741	–

5. LEASE

The following table presents balances reported in the consolidated balance sheets related to the Group's leases:

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Operating lease right-of-use assets	161,617	208,863	243,859	212,529
Operating lease liabilities	172,466	222,231	260,579	227,745

The following table presents operating lease expense reported in the consolidated statements of comprehensive income related to the Group's leases:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Operating lease expense . . .	64,756	64,594	106,459	47,543	57,682

The following table reconciles the undiscounted cash flows of the Group's leases as of December 31, 2019, 2020 and 2021 and June 30, 2022 to the present value of its operating lease payments:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
2020	56,714	–	–	–
2021	46,968	74,740	–	–
2022	44,354	70,180	102,767	54,101
2023	40,346	62,559	96,326	100,453
2024	–	17,004	38,306	42,159
2025	–	16,190	30,688	33,622
2026 and thereafter	–	–	7,455	14,403
Total undiscounted operating lease payments	188,382	240,673	275,542	244,738
Less: imputed interest	(15,916)	(18,442)	(14,963)	(16,993)
Present value of operating lease liabilities	172,466	222,231	260,579	227,745

6. LOANS AND ADVANCES

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Margin loans	4,141,962	18,434,047	29,097,216	26,722,627
IPO loans	–	400,394	34,348	178,584
Other advances	46,727	–	468,000	1,948,857
Subtotal	4,188,689	18,834,441	29,599,564	28,850,068
Less: Allowance for credit losses	–	(9,075)	(12,258)	(20,142)
Total	4,188,689	18,825,366	29,587,306	28,829,926

Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. Margin loans due from margin clients were repayable on demand. The Group continuously updating a client account's securities and margin requirements and, if the account's securities falls below its minimum margin requirements, automatically issuing liquidating orders in a smart sequence designed to minimize the impact on the account's equity. Under applicable contract, the Group have the right to dispose of the pledge when stock falls below a certain percentage requirement. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the total market value of securities pledged as collateral in respect of the loans to margin clients are disclosed in Note 18.

IPO loans are extended to clients and collected once IPO stocks are allotted. The terms of IPO loans are normally within one week. As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were no overdue IPO loans and total amount of them were collected subsequently.

Other advances mainly consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral, 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. The terms of other advances are usually within one year. As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were no overdue other advances.

(a) **Loss allowance of loans and advances**

Movements on the allowance for credit losses:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
At January 1	–	–	9,075	9,075	12,258
Loss allowance recognized	–	9,075	3,200	8,819	7,849
Exchange difference	–	–	(17)	–	35
At end of the year/period	–	9,075	12,258	17,894	20,142

7. **ACCOUNT RECEIVABLE**

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Receivables:				
Clients	247,017	735,145	469,577	1,438,510
Brokers	1,226,348	5,780,461	7,893,927	6,125,217
Clearing organizations	304,080	1,243,928	1,961,121	1,915,872
Fund management companies and fund distributors	–	297,622	72,340	120,537
Interest	16,892	19,876	50,829	89,458
Subtotal	1,794,337	8,077,032	10,447,794	9,689,594
Less: Allowance for credit losses	–	–	–	–
Total	1,794,337	8,077,032	10,447,794	9,689,594

Accounts from clients, brokers, clearing organizations, fund management companies and fund distributors and interest are current. These represent (1) pending trades arising from the business of dealing in securities and fund management, which are normally due within a few days after the trade date, (2) margin deposits arising from the business of dealing in futures and options contracts and (3) interest arising from margin financing and securities lending.

8. OTHER ASSETS

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(HK\$ in thousands)			(HK\$ in thousands)
Current:				
Staff advances	61,745	36,468	26,527	17,854
Deposit	12,676	64,471	23,032	40,523
Others	5,242	5,948	32,035	50,363
Total	79,663	106,887	81,594	108,740
Non-current:				
Refundable deposit	32,873	150,733	337,513	779,453
Property and equipment, net (Note a)	117,630	108,316	175,757	160,107
Deferred tax assets (Note 26)	1,576	17,174	38,317	36,486
Intangible assets, net (Note b) . . .	7,693	10,216	17,218	52,805
Others	–	–	–	31,283
Total	159,772	286,439	568,805	1,060,134

(a) Property and equipment, net, consisted of the following:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(HK\$ in thousands)			(HK\$ in thousands)
Gross carrying amount				
Computers and equipment	56,175	60,039	109,989	106,806
Furniture and fixtures	34,588	34,704	64,507	70,504
Office equipment	29,938	42,276	64,822	65,639
Office building	28,110	27,983	28,239	30,982
Vehicle	634	632	635	639
Total of gross carrying amount	149,445	165,634	268,192	274,570
Less: accumulated depreciation				
Computers and equipment	(8,289)	(17,295)	(29,852)	(38,700)
Furniture and fixtures	(6,234)	(13,738)	(23,828)	(31,314)
Office equipment	(16,241)	(24,282)	(35,860)	(41,101)
Office building	(519)	(1,403)	(2,291)	(2,740)
Vehicle	(532)	(600)	(604)	(608)
Total of accumulated depreciation . . .	(31,815)	(57,318)	(92,435)	(114,463)
Property and equipment, net	117,630	108,316	175,757	160,107

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 income for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 were HK\$15,647 thousand, HK\$25,792 thousand, HK\$34,118 thousand, HK\$14,459 thousand and HK\$25,213 thousand, respectively.

(b) Intangible assets, net, consisted of the following:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Gross carrying amount				
Computer software	6,328	8,525	15,596	21,381
License	2,000	2,000	4,261	29,060
Others	1,678	3,563	3,638	10,491
Total of gross carrying amount . . .	10,006	14,088	23,495	60,932
Less: accumulated amortization				
Computer software	(1,647)	(3,041)	(5,172)	(6,442)
License	–	–	–	(209)
Others	(666)	(831)	(1,105)	(1,476)
Total of accumulated amortization . .	(2,313)	(3,872)	(6,277)	(8,127)
Intangible assets, net	7,693	10,216	17,218	52,805

Amortization expenses on intangible assets which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the consolidated statements of comprehensive income for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 were HK\$900 thousand, HK\$1,439 thousand, HK\$2,317 thousand, HK\$909 thousand and HK\$2,324 thousand, respectively.

9. LONG-TERM INVESTMENTS

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Equity method investments ⁽¹⁾	6,166	–	7,798	233,834
Equity investments without readily determinable fair values ⁽²⁾	–	–	15,596	15,754
Total	6,166	–	23,394	249,588

(1) Equity method investments

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Group's investments accounted for under the equity method totaled HK\$6,166 thousand, nil, HK\$7,798 thousand and HK\$233,834 thousand, respectively. The Group applies the equity method of accounting to account for its equity method investments over which it has significant influence but does not own a majority equity interest or otherwise control.

In January 2019, the Group invested in a private company by acquiring 20% ordinary equity interest with a total consideration of HK\$6,709 thousand. The Group accounts for this as an equity method investment. For the years ended December 31, 2019 and 2020, loss on investment recognized were HK\$543 thousand and HK\$278 thousand, respectively. Based on the Group's assessment on the recoverable amounts of the equity method investment, as of December 31, 2019, 2020 and 2021 and June 30, 2022, the impairment provision on the equity method investment was nil, HK\$5,888 thousand, HK\$5,888 thousand, and HK\$5,888 thousand, respectively.

In December 2021, the Group invested in a private equity fund by acquiring approximately 10% ordinary equity interest with a total consideration of HK\$7,798 thousand. The Group accounts for this as an equity method investment. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of December 31, 2021 and June 30, 2022, no impairment provision on the equity method investment was recognized.

In June 2022, the Group invested in a private equity fund by acquiring approximately 16% ordinary equity interest with a total consideration of HK\$235,434 thousand. The Group accounts for this as an equity method investment. For the period ended June 30, 2022, loss on investment recognized were HK\$9,398 thousand. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of June 30, 2022, no impairment provision on the equity method investment was recognized.

(2) *Equity investments without readily determinable fair values*

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Group's equity investments without readily determinable fair values totaled nil, nil, HK\$15,596 thousand and HK\$15,754 thousand, respectively. In December 2021, the Group invested in a private equity fund by acquiring 2.75% ordinary equity interest with a total consideration of HK\$15,596 thousand. Equity securities without determinable fair values of the Group represent investments in privately held companies with no readily determinable fair value. The Group elected measurement alternative and recorded these investments at cost, less impairment, adjusted for subsequent observable price changes. As of December 31, 2021 and June 30, 2022, no impairment provision on the equity investments without readily determinable fair values were recognized.

10. BORROWINGS

The Group's borrowings are presented on the consolidated balance sheets as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Borrowings from:				
Banks (a)	1,467,586	5,182,620	6,357,405	4,353,919
Third party	–	300,198	–	–
Total	1,467,586	5,482,818	6,357,405	4,353,919

The Group obtained borrowings mainly to support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of 4.29%, 1.82%, 1.15% and 1.75% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

The Group's borrowings were repayable as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Within 1 year	1,467,586	5,482,818	6,357,405	4,353,919

- (a) The Group has unused borrowing facilities of HK\$3,326,555 thousand, HK\$3,285,909 thousand, HK\$14,695,095 thousand and HK\$17,955,662 thousand from banks as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, which are uncommitted. These bank borrowings were pledged by margin clients' shares as the primary source of credit risk mitigation of the lenders, and bore floating interest rates based on various benchmarks including Hong Kong Prime Rate, Hong Kong Interbank Offered Rate ("HIBOR"), CNH HIBOR, etc.

The Company's borrowings are presented on the balance sheets as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Borrowings from:				
Banks (a)	–	977,735	689,869	290,000
Total	–	977,735	689,869	290,000

The Company obtained borrowings mainly to support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of nil, 1.82%, 1.39% and 1.59% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

The Company's borrowings were repayable as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Within 1 year	–	977,735	689,869	290,000

- (a) The Company has unused borrowing facilities of nil, HK\$9,888 thousand, HK\$1,160,000 thousand and HK\$560,000 thousand from banks as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, which are uncommitted.

11. ACCOUNTS PAYABLES

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Payables:				
Clients	15,438,879	46,062,842	59,127,439	67,951,394
Brokers	1,484,243	4,533,581	7,599,233	14,365,158
Clearing organizations	–	324,266	393,782	1,359,746
Fund management companies and fund distributors	26,381	127,442	56,690	49,545
Interest	519	5,493	15,359	10,334
Total	<u>16,950,022</u>	<u>51,053,624</u>	<u>67,192,503</u>	<u>83,736,177</u>

All of the accounts payables are expected to be settled within one year or are repayable on demand.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Current:				
Payables to corporate clients in relation to ESOP management services ⁽¹⁾	16,492	17,801	870,283	508,375
Accrued payroll and welfare expenses	100,228	317,428	531,409	597,834
Tax payables	50,803	173,911	494,744	403,700
Accrued advertising and promotion fee	10,862	37,652	152,305	92,278
Temporary payables in relation to fund distribution services	–	70,793	48,240	47,111
Accrued professional fee	5,710	6,952	22,066	40,209
Stamp duty, trading levy and trading fee payables	5,612	26,007	19,447	45,058
Accrued market information and data fee	5,646	13,143	12,832	7,765
Contract liabilities – current . . .	278	2,958	3,058	1,714
Refund from depositary bank – current	2,769	2,756	2,773	2,790
Others	15,911	47,782	19,056	60,252
Total	<u>214,311</u>	<u>717,183</u>	<u>2,176,213</u>	<u>1,807,086</u>
Non-current:				
Contract liabilities – non-current	1,848	5,291	5,910	5,429
Refund from depositary bank – non-current	9,920	7,120	4,389	3,022
Deferred tax liabilities (Note 26)	–	1,604	636	7,643
Total	<u>11,768</u>	<u>14,015</u>	<u>10,935</u>	<u>16,094</u>

(1) Payables to corporate clients in relation to ESOP management services mainly consist of exercise payment of share options and related withholding tax. These payables are usually expected to be settled within one year.

13. ORDINARY SHARES AND TREASURY STOCK**Ordinary shares**

The Company's original Memorandum and articles of association authorized 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 authorized 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.

1) 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 Group's shareholders or directors, where appropriate. Cash dividend on ordinary shares, if any, will be paid in U.S. dollars.

2) Variation of share capital

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.

On March 8, 2019, the Company completed its IPO on the Nasdaq Global Market. In the offering, 8,625,000 ADSs (including 1,125,000 ADSs sold upon the full exercise of the underwriters' over-allotment option), representing 69,000,000 Class A ordinary shares, were issued and sold to the public at a price of US\$12.0 per ADS. Concurrently with the IPO, 46,666,666 Class A ordinary shares were issued and sold to General Atlantic Singapore FT Pte. Ltd. at a price per share equal to the IPO price per share. The net proceeds to the Company from the IPO and Concurrent Private Placement, after deducting commissions and offering expenses, were approximately US\$161.7 million (HK\$1,259.3 million).

Upon the completion of the IPO, all 377,931,094 issued and outstanding preferred shares were converted into ordinary shares immediately as of the same date. Concurrently the Company completed the redesignation on a one-for-one basis of: (i) all of 403,750,000 original 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 shares (including ordinary shares resulting from the conversion and re-designation of preferred shares) held by Qiantang River Investment Limited into Class B ordinary shares; (ii) all of remaining ordinary shares (including 237,129,043 ordinary shares resulting from the conversion and re-designation of preferred shares) into Class A ordinary shares. The Group concluded that the adoption of dual-class share structure did not have a material impact on its consolidated financial statements.

In respect of all matters subject to shareholders' vote, each holder of Class A ordinary share is entitled to one and each holder of Class B ordinary share is entitled to twenty votes.

On August 22, 2020, the Company completed a public offering, issued 76,000,000 Class A ordinary shares for a total consideration of US\$301.8 million (HK\$2,339.7 million) after deducting the underwriting discounts and commissions and offering expenses.

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. On December 3, 2020, 50,000,000 shares of Class B ordinary shares were converted to the same number of Class A ordinary shares.

In December, 2020, the Company entered into a securities purchase agreement with a leading global investment firm for a private placement of pre-funded warrants (the "Offering" or the "pre-funded warrants"). The net proceeds to the Company from the Offering were approximately HK\$2,035.1 million (US\$262.5 million). In the Offering, the Company issued pre-funded warrants to purchase 53,600,000 shares of Class A ordinary shares that were immediately exercisable and had a termination date in June 2022, at a price of US\$4.89751 less a nominal exercise price of US\$0.00001 per pre-funded warrant. The pre-funded warrants were equity classified because they were immediately exercisable, did not embody an obligation for the Company to repurchase its shares, and permitted the holders to receive a fixed number of common shares upon exercise. In addition, such warrants did not provide any guarantee of value or return. On June 11, 2021, the investment firm exercised these warrants.

On April 24, 2021, the Company completed a public offering, issued 87,400,000 Class A ordinary shares for a total consideration of US\$1,398 million (HK\$10,856.5 million) after deducting the underwriting discounts and commissions and offering expenses.

During the year ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, 106,295,232, 5,048,824, 5,875,592, 2,395,392 and 1,197,536 shares of Class A Ordinary Shares were issued upon exercise of outstanding stock options, nil, nil, 929,672, nil and nil shares of Class A Ordinary Shares were issued upon vest of outstanding restricted share units under the Group's share-based incentive plans (Note 16).

Treasury stock

On November 3, 2021, the Group's Board of Directors approved a share repurchase program to repurchase up to US\$300.0 million worth of its own American depository shares ("ADSs"), representing its Class A ordinary shares, until December 31, 2022.

On March 10, 2022, the Group's Board of Directors approved another share repurchase program to repurchase up to US\$500.0 million worth of the ADSs, representing its Class A ordinary shares, until December 31, 2023.

As of December 31, 2021 and June 30, 2022, the Group had repurchased an aggregate of 29,462,760 and 109,041,760 Class A ordinary shares under these share repurchase programs in the open market, at an average price of US\$41.04 and US\$36.70 per ADS, or US\$5.13 and US\$4.59 per share for a total consideration of US\$151.2 million (HK\$1,178.8 million) and US\$500.3 million (HK\$3,909.8 million), respectively.

14. RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the Group's PRC subsidiaries and VIEs are required to make appropriation to certain reserve funds, namely general reserve fund, enterprise expansion fund, and staff bonus and welfare fund, all of which are appropriated from the subsidiaries' annual after-tax profits as reported under PRC GAAP. The appropriation must be at least 10% of the annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of the subsidiaries' registered capital.

The domestic companies are also required to provide discretionary surplus fund, at the discretion of the Board of Directors, from its annual after-tax profits as reported under PRC accounting standards. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

Furthermore, cash transfers from the Group's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency at the time of requesting such conversion may temporarily delay the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy their foreign currency denominated obligations.

As a result of the PRC laws and regulations and the requirement that distributions by the PRC entity can only be paid out of distributable profits computed in accordance with PRC accounting standards, the PRC entity is restricted from transferring a portion of its net assets to the Group. Amounts restricted include paid-in capital and statutory reserves of the Group's PRC subsidiaries and VIEs. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the restricted net assets of the Group's relevant PRC entities amounted to HK\$205,306 thousand, HK\$229,035 thousand, HK\$304,377 thousand and HK\$304,377 thousand, respectively.

15. REDEEMABLE CONVERTIBLE PREFERRED SHARES

From 2014 to 2017, the Group issued several rounds of Preferred Shares to certain investors. All series of Preferred Shares had the same par value of US\$0.00001 per share. Upon the completion of the Company's IPO in March 2019, all of the issued and outstanding Preferred Shares were automatically converted and redesignated into Class A or Class B Ordinary Shares on a one-for-one basis.

Prior to the automatic conversion into Class A Ordinary Shares, the Preferred Shares were entitled to certain preferences with respect to conversion, dividend, liquidation and redemption. The holders of Preferred Shares were entitled to vote together with the holders of ordinary shares on all matters submitted to a vote of the shareholders of the Company on an as-if-converted basis and not as a separate class. Immediately prior to the IPO, the Preferred Shares comprised the following:

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.

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.

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 December 31, 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 "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 recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to the earliest redemption date.

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.

In March 2019, 237,129,043 issued and outstanding preferred shares were converted into Class A ordinary shares and 140,802,051 issued and outstanding preferred shares were converted into Class B ordinary shares upon the completion of the IPO.

16. SHARE-BASED COMPENSATION

Share-based compensation was recognized in operating expenses for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Research and development expenses	12,055	20,579	75,755	25,202	69,170
General and administrative expenses	3,374	10,354	14,020	4,924	20,294
Selling and marketing expenses	538	1,640	9,138	3,290	7,787
Total share-based compensation expenses	15,967	32,573	98,913	33,416	97,251

Share Options

In October 2014, the Board of Directors of the Company 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.

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan, pursuant to which the maximum number of shares of the Company available for issuance 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; provided, however, that (i) the 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, 2019 immediately preceding the most recent increase.

On December 30, 2019, the Company modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to US\$0.60. The incremental compensation expenses of HK\$3,008 thousand (US\$386 thousand) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification.

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the Group granted 9,791,200, 2,489,832, 1,080,000, nil and nil stock options to employees pursuant to the 2014 Share Incentive Plan and 2019 Share Incentive Plan.

A summary of the stock option activity under the 2014 and 2019 Share Incentive Plan for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 is included in the table below.

	Options granted share number	Weighted average exercise price per option <i>(US\$)</i>
Outstanding at December 31, 2018	121,207,838	0.1049

	<u>Options granted share number</u>	<u>Weighted average exercise price per option</u> (US\$)
Exercised	(106,295,232)	0.0126
Granted	9,791,200	0.6500
Cancelled/forfeited	<u>(985,180)</u>	0.8402
Outstanding at December 31, 2019	<u>23,718,626</u>	0.5161
Exercised	(5,048,824)	0.4293
Granted	2,489,832	0.6810
Cancelled/forfeited	<u>(2,117,298)</u>	0.5588
Outstanding at December 31, 2020	<u>19,042,336</u>	0.5628
Exercised	(5,875,592)	0.4365
Granted	1,080,000	0.0444
Forfeited	<u>(905,278)</u>	0.6539
Outstanding at December 31, 2021	<u>13,341,466</u>	0.5703
Exercised	(1,197,536)	0.6469
Forfeited	<u>(303,040)</u>	0.5634
Outstanding at June 30, 2022	<u>11,840,890</u>	0.5627
(Unaudited)		
Outstanding at December 31, 2020	19,042,336	0.5628
Exercised	(2,395,392)	0.4365
Forfeited	<u>(505,360)</u>	0.6572
Outstanding at June 30, 2021	<u>16,141,584</u>	0.5786

The following table summarizes information regarding the share options outstanding as of December 31, 2019, 2020 and 2021 and June 30, 2022, and exercise prices and aggregate intrinsic value have been adjusted according to the modification of exercise price in December 2019:

	<u>As of December 31, 2019</u>			
	<u>Options number</u>	<u>Weighted- average exercise price per option</u>	<u>Weighted- average remaining exercise contractual life (years)</u>	<u>Aggregate intrinsic value</u>
		(US\$)		(US\$ in thousands)
Options				
Outstanding	23,718,626	0.5161	4.84	18,356
Exercisable	2,802,821	0.4061	4.84	2,459
Expected to vest	20,915,805	0.5307	4.84	15,897

As of December 31, 2020				
	Options number	Weighted- average exercise price per option	Weighted- average remaining exercise contractual life (years)	Aggregate intrinsic value
		(US\$)		(US\$ in thousands)
Options				
Outstanding	19,042,336	0.5628	3.90	98,182
Exercisable	3,315,850	0.4891	3.84	17,341
Expected to vest	15,726,486	0.5783	3.91	80,841

As of December 31, 2021				
	Options number	Weighted- average exercise price per option	Weighted- average remaining exercise contractual life (years)	Aggregate intrinsic value
		(US\$)		(US\$ in thousands)
Options				
Outstanding	13,341,466	0.5703	3.42	165,157
Exercisable	2,825,014	0.5729	2.85	34,964
Expected to vest	10,516,452	0.5696	3.57	130,193

As of June 30, 2022				
	Options number	Weighted- average exercise price per option	Weighted- average remaining exercise contractual life (years)	Aggregate intrinsic value
		(US\$)		(US\$ in thousands)
Options				
Outstanding	11,840,890	0.5627	3.00	64,020
Exercisable	1,654,999	0.5198	2.36	9,019
Expected to vest	10,185,891	0.5697	3.10	55,001

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the underlying stock at December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022.

The weighted average grant date fair value of options granted for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 were US\$0.7345, US\$1.5239, US\$18.9219, nil and nil per option, respectively.

Options exercised for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 were 106,295,232, 5,048,824, 5,875,592, 2,395,392 and 1,197,536, respectively. The total intrinsic value of options exercised during year ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022 was approximately HK\$1,094 million (US\$140 million), HK\$140,794 thousand (US\$18,147 thousand), HK\$614,738 thousand (US\$79,093 thousand) and HK\$39,030 thousand (US\$4,988 thousand).

The fair value of each option granted during the year ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
				<i>(unaudited)</i>	
Risk-free interest rate . . .	1.67%	0.27%- 0.36%	0.09%- 0.89%	NA	NA
Expected term (in years)	5.00	5.00	5.00	NA	NA
Expected dividend yield . .	0%	0%	0%	NA	NA
Expected volatility	45%	40%	40%	NA	NA
Expected forfeiture rate (post-vesting)	15%	15%	15%	NA	NA

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 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, 2019, 2020 and 2021 and June 30, 2022, there was HK\$100,437 thousand (US\$12,894 thousand), HK\$87,602 thousand (US\$11,300 thousand), HK\$201,948 thousand (US\$25,897 thousand) and HK\$173,796 thousand (US\$22,146 thousand) of unrecognized compensation expenses related to the options, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 4.44, 3.66, 3.96 and 3.53 years, respectively, and may be adjusted for future changes in estimated forfeitures.

Restricted Share Units Plan

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan. The fair value of restricted share units granted with service conditions is estimated based on the fair market value of the underlying ordinary shares of the Company on the date of grant.

The following table summarizes activities of the Company's restricted share units granted to employees under the plan:

	Shares awarded number	Weighted average grant date fair value per share
		<i>(US\$)</i>
Outstanding at December 31, 2019	–	–
Granted	6,067,400	4.6827
Outstanding at December 31, 2020	<u>6,067,400</u>	4.6827
Vested	(929,672)	4.6827
Granted	12,105,712	5.7371
Forfeited	(281,576)	5.4426
Outstanding at December 31, 2021	<u>16,961,864</u>	5.6793

	Shares awarded number	Weighted average grant date fair value per share <i>(US\$)</i>
Granted	48,000	5.4125
Forfeited	<u>(1,152,240)</u>	5.0585
Outstanding at June 30, 2022	<u>15,857,624</u>	5.7236
(Unaudited)		
Outstanding at December 31, 2020	6,067,400	4.6827
Forfeited	<u>(171,200)</u>	4.7350
Outstanding at June 30, 2021	<u>5,896,200</u>	4.6812

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the Group granted nil, 6,067,400, 12,105,712, nil and 48,000 restricted share units to employees pursuant to the 2019 Share Incentive Plan, respectively.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, there was nil, HK\$219,251 thousand (US\$28,281 thousand), HK\$694,749 thousand (US\$89,092 thousand) and HK\$599,247 thousand (US\$76,359 thousand) of unrecognized compensation expenses related to the restricted share units, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of nil, 4.98, 4.64 and 4.14 years and may be adjusted for future changes in estimated forfeitures.

17. NET INCOME PER SHARE

For the year ended December 31, 2019, 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. For the year ended December 31, 2020, the Company issued pre-funded warrants to purchase 53,600,000 shares of Class A ordinary shares with an exercise price of US\$0.00001 that are included in our computation of basic earnings per share. For the year ended December 31, 2021, the investment firm exercised these pre-funded warrants which increased 53,599,890 shares of Class A ordinary shares, and 110 shares were retrieved as the consideration of share purchase.

Basic net income per share and diluted net income per share have been calculated in accordance with ASC 260 on computation of earnings per share for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands, except for share and per share data)</i>			<i>(HK\$ in thousands, except for share and per share data) (unaudited)</i>	
Basic net income per share calculation:					
Numerator:					
Net income attributable to ordinary shareholders of the Company	143,159	1,325,523	2,810,210	1,696,190	1,213,525

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands, except for share and per share data)</i>			<i>(HK\$ in thousands, except for share and per share data) (unaudited)</i>	
Denominator:					
Weighted average number of ordinary shares outstanding — basic	832,790,329	1,036,865,727	1,200,912,670	1,173,661,489	1,158,972,163
Net income per share attributable to ordinary shareholders of the Company — basic					
	0.17	1.28	2.34	1.45	1.05
Diluted net income per share calculation:					
Numerator:					
Net income attributable to ordinary Shareholders of the Company	143,159	1,325,523	2,810,210	1,696,190	1,213,525
Denominator:					
Weighted average number of ordinary shares outstanding — basic	832,790,329	1,036,865,727	1,200,912,670	1,173,661,489	1,158,972,163
Dilutive effect of share options and restricted share units	85,107,097	13,277,287	18,759,838	20,919,384	10,600,352
Weighted average number of ordinary shares outstanding — diluted . . .	917,897,426	1,050,143,014	1,219,672,508	1,194,580,873	1,169,572,515
Net income per share attributable to ordinary shareholders of the Company — diluted					
	0.16	1.26	2.30	1.42	1.04

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, options to purchase ordinary shares and restricted share units that were anti-dilutive and excluded from the calculation of diluted net income per share were 3,747,975, 4,800,584, 357,978, nil and 4,390,826 shares on a weighted average basis, respectively.

18. COLLATERALIZED TRANSACTIONS

The Group engages in margin financing transactions with its clients. Margin loans generated from margin lending activity are collateralized by cash and/or client-owned securities held by the Group. The Group monitors the required margin and collateral level on a daily basis in compliance with regulatory and internal guidelines and controls its risk exposure through risk management system. Under applicable agreements, clients are required to deposit additional collateral or reduce holding positions, when necessary to avoid forced liquidation of their positions.

Pursuant to the authorization obtained from margin clients, the Group further repledges the collaterals to commercial banks or other financial institutions to obtain the funding for the margin or other businesses.

The following table summarizes the amounts of margin loans and clients' collaterals received and repledged by the Group as of December 31, 2019, 2020 and 2021 and June 30, 2022:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Margin loan extended to margin clients (net)	4,141,962	18,424,972	29,084,958	26,702,485
Securities purchased under agreements to resell transactions	–	–	106,203	–
Collateral received from margin clients	19,503,649	89,404,131	119,745,500	119,991,002
Collateral received from brokers	–	–	144,156	–
Collateral repledged to commercial banks and other financial institutions	9,408,908	58,255,907	20,953,603	12,830,183
	<u>9,408,908</u>	<u>58,255,907</u>	<u>20,953,603</u>	<u>12,830,183</u>

The Group also engaged in securities borrowing and lending transactions which require it to deposit cash collateral with the securities lenders and receive the cash collateral from the borrowers. The cash collateral is generally in excess of the market value of the securities borrowed and lent. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

The following table summarizes the amounts of market value of securities borrowed and lent and cash collateral received and deposited as of December 31, 2019, 2020 and 2021 and June 30, 2022:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Securities borrowed and lent ⁽¹⁾	935,443	4,307,346	8,436,638	15,354,335
Cash collateral deposited with lenders	1,126,300	3,645,214	3,120,123	1,045,657
Cash collateral received from borrowers	1,342,738	5,067,828	9,737,786	17,733,171
	<u>1,342,738</u>	<u>5,067,828</u>	<u>9,737,786</u>	<u>17,733,171</u>

(1) Borrowed securities includes securities borrowed from margin clients under authorization, in this case no cash collateral is required.

19. BROKERAGE COMMISSION AND HANDLING CHARGE INCOME

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i> <i>(unaudited)</i>	
Brokerage commission income	352,625	1,531,048	3,147,610	1,702,484	1,618,637
Handling charge income	158,740	459,090	765,417	420,195	382,609
Total	<u>511,365</u>	<u>1,990,138</u>	<u>3,913,027</u>	<u>2,122,679</u>	<u>2,001,246</u>

20. INTEREST INCOME

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Interest income from:					
Margin financing	221,648	497,975	1,720,473	786,095	766,722
Securities lending	37,202	73,792	397,505	233,929	182,124
Bank deposits	187,223	208,556	197,390	88,916	196,807
Bridge loan	6,172	1,078	1,872	–	48,235
IPO financing	12,658	184,226	200,567	160,000	750
Other financing	–	–	391	–	1,023
Total	464,903	965,627	2,518,198	1,268,940	1,195,661

21. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Currency exchange service income	4,670	67,000	201,030	104,982	78,506
Funds distribution service income	10,447	42,658	68,856	28,595	39,529
Enterprise public relations service charge income	16,156	29,988	96,327	42,985	25,201
Market information and data income	2,692	18,463	43,921	23,972	22,497
Underwriting fee income	19,579	30,797	86,880	47,770	10,905
IPO subscription service charge income	26,537	159,682	169,336	136,972	3,327
Others	5,206	6,469	17,745	4,566	10,856
Total	85,287	355,057	684,095	389,842	190,821

22. BROKERAGE COMMISSION AND HANDLING CHARGE EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Commission, handling and settlement expenses	95,064	302,800	524,470	319,496	182,541
IPO subscription service charge expenses	5,486	58,686	47,689	39,506	680
Total	100,550	361,486	572,159	359,002	183,221

23. INTEREST EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Interest expenses for margin financing					
Due to banks	36,206	45,545	125,002	65,295	23,477
Due to other licensed financial institutions	28,636	38,246	51,179	36,294	7,391
Due to other parties	3,930	–	–	–	–
Interest expenses for securities borrowed					
Due to clients	1,298	7,984	132,034	88,818	29,524
Due to brokers	9,077	13,853	18,624	14,093	5,435
Interest expenses for IPO financing					
Due to banks	10,091	79,337	50,063	42,183	–
Due to other parties	–	125	–	284	–
Total	89,238	185,090	376,902	246,967	65,827

24. PROCESSING AND SERVICING COSTS

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Cloud service fee	16,729	48,940	122,269	46,029	116,695
Market information and data fee	54,282	68,274	70,387	31,753	38,264
Data transmission fee	13,890	23,072	46,289	31,083	16,969
System cost	4,334	4,476	12,160	3,983	11,793
SMS service fee	1,523	2,511	1,197	549	544
Others	1,158	2,105	4,701	2,627	2,534
Total	91,916	149,378	257,003	116,024	186,799

25. NON-INTEREST COST AND EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(HK\$ in thousands)			(HK\$ in thousands) (unaudited)	
Marketing and branding . . .	130,528	297,170	1,163,495	570,377	321,632
Employee compensation and benefits	327,441	682,068	1,248,682	447,394	962,144
Brokerage commission and handling charge expenses (Note 22)	100,550	361,486	572,159	359,002	183,221
Processing and servicing costs (Note 24)	91,916	149,378	257,003	116,024	186,799
Rental and other related expenses	64,756	64,594	106,459	47,543	57,682
Professional services	28,757	32,988	56,872	22,786	45,897
Depreciation and amortization	16,547	27,231	36,435	15,368	27,537
Listing expenses	–	–	2,825	–	2,135
Others	23,867	42,956	111,675	33,720	52,914
Total	784,362	1,657,871	3,555,605	1,612,214	1,839,961

26. TAXATION

Income Tax

(1) Cayman Islands

The Group 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) The United States (“US”)

The Company’s subsidiaries incorporated in the United States are subject to statutory income tax at a rate up to 35% for taxable income earned in the United States. On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted, significantly revising the U.S corporate income tax law. Changes include a reduction in the federal corporate tax, changes to operating loss carry-forwards and carrybacks, and a repeal of the corporate alternative minimum tax. This legislation resulted in a reduction of the U.S. federal corporate income tax rates from a maximum of 35% to 21%, to which the subsidiaries incorporated in the United States are subject.

(3) Hong Kong

Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(4) Singapore

The Company’s subsidiaries incorporated in Singapore are subject to an income tax rate of 17% for taxable income earned in Singapore. Singapore does not impose a withholding tax on dividends for resident companies. In the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, we did not incur any income tax as there was no estimated assessable profit that was subject to Singapore income tax.

(5) *China*

The Company's subsidiaries, consolidated VIEs and subsidiary of the VIEs established in the PRC are subject to statutory income tax at a rate of 25%, unless preferential tax rates were applicable.

The Enterprise Income Tax ("EIT") Law and its implementing rules permit High and New Technology Enterprise ("HNTE") to enjoy a reduced 15% EIT rate. Futu Network Technology (Shenzhen) Co., Ltd., one of the Company's subsidiary, and Shenzhen Futu, the Group's consolidated VIE, obtained the qualification certificate of HNTE under the EIT Law, subject to the tax rate of 15% with a valid period of three years starting from 2019 and 2020, respectively.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

Under the 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 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%.

Dividends paid by the Group's wholly foreign-owned subsidiaries in China to non-PRC-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 relevant income is not effectively connected with the establishment or place of business, will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the 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 Income and receives approval from the relevant tax authority. The undistributed earnings that are subject to dividend tax are expected to be indefinitely reinvested for the foreseeable future. The Group did not record any withholding tax for its PRC earnings and considered determination of such withholding tax amount not practicable.

Composition of income tax expenses

The following table sets forth current and deferred portion of income tax expenses:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i> <i>(unaudited)</i>	
Current income tax expenses	13,858	137,939	396,512	215,288	143,732
Deferred income tax benefit	(1,572)	(13,146)	(21,431)	(8,791)	(534)
Income tax expenses	<u>12,286</u>	<u>124,793</u>	<u>375,081</u>	<u>206,497</u>	<u>143,198</u>

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:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Income before income tax	178,493	1,450,623	3,185,291	1,902,687	1,366,121
Tax expenses at Hong Kong profit tax rate of 16.5%	29,451	239,353	524,907	313,943	225,245
Changes of valuation allowance	30,172	14,348	101,653	51,486	1,300
Tax effect of permanence differences	5,486	9,029	22,047	5,948	20,365
Effect of income tax in jurisdictions other than Hong Kong	(4,143)	(4,386)	(32,182)	(6,282)	921
Super deduction of research and development expenses	(19,277)	(29,081)	(62,966)	(21,597)	(31,895)
Final settlement differences	(18,038)	–	(602)	–	(2,418)
Income not subject to tax ⁽¹⁾	(11,365)	(104,470)	(177,776)	(137,001)	(70,320)
Income tax expenses	<u>12,286</u>	<u>124,793</u>	<u>375,081</u>	<u>206,497</u>	<u>143,198</u>

- (1) This amount mainly represents tax exemption relating to the offshore income of Futu Securities. The brokerage commission income derived from executing the clients' orders of US listed securities was treated as offshore-sourced and non-taxable on the basis that these transactions were executed outside Hong Kong.

Deferred Tax Assets and Liabilities

Deferred income tax expenses reflect 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 and liabilities are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Deferred tax assets				
Net operating loss carryforwards	42,736	64,092	158,826	156,774
Accrued expenses and others	12,261	22,348	50,408	52,082
Less: valuation allowance	(53,421)	(67,769)	(169,422)	(170,722)
Total deferred tax assets	1,576	18,671	39,812	38,134
Set-off of deferred tax liabilities pursuant to set-off provisions	–	(1,497)	(1,495)	(1,648)
Net deferred tax assets	<u>1,576</u>	<u>17,174</u>	<u>38,317</u>	<u>36,486</u>

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Total deferred tax liabilities	–	3,101	2,131	9,291
Set-off of deferred tax assets pursuant to set-off provisions . . .	–	(1,497)	(1,495)	(1,648)
Net deferred tax liabilities	–	1,604	636	7,643

Movement of Valuation Allowance

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i> <i>(unaudited)</i>	
Balance at beginning of the year/period	23,249	53,421	67,769	67,769	169,422
Additions	30,188	30,935	108,347	52,234	58,939
Reversals	(16)	(16,587)	(6,694)	(748)	(57,639)
Balance at end of the year/period	53,421	67,769	169,422	119,255	170,722

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%, 27.98%, 27.87%, 16.5%, 17% or the preferential tax rate of 15%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Group had net operating loss carryforwards of approximately HK\$223,629 thousand and HK\$315,287 thousand, HK\$764,251 thousand and HK\$767,940 thousand, respectively, which arose from the subsidiaries, VIEs and the VIEs' subsidiaries established in Hong Kong, the U.S, Singapore and PRC. As of December 31, 2019, 2020 and 2021 and June 30, 2022, of the net operating loss carryforwards, HK\$217,999 thousand and HK\$315,287 thousand, HK\$761,417 thousand and HK\$767,940 thousand was provided for valuation allowance against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets of accrued expenses and others will not be realized. While the remaining HK\$5,630 thousand, nil, HK\$2,834 thousand and nil is expected to be utilized prior to expiration considering future taxable income for respective entities.

Uncertain Tax Position

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. The Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

27. 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 RMB32,556 thousand (HK\$36,843 thousand), RMB49,778 thousand (HK\$57,092 thousand), RMB110,997 thousand (HK\$134,325 thousand), RMB44,086 thousand (HK\$52,996 thousand) and RMB79,876 thousand (HK\$96,213 thousand) for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, 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 income were HK\$1,044 thousand, HK\$1,414 thousand, HK\$2,197 thousand, HK\$994 thousand and HK\$1,238 thousand of plan contributions for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

For the employees in Singapore, the Group makes monthly contributions to the mandatory social security savings scheme which serves to meet retirement, housing and healthcare needs. The Employment Act of Singapore requires that the Group makes contributions to the scheme based on certain percentages of the employees' salaries, up to a maximum amount specified by the act. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were nil, SGD5 thousand (HK\$31 thousand), SGD294 thousand (HK\$1,702 thousand), SGD160 thousand (HK\$930 thousand) and SGD275 thousand (HK\$1,577 thousand) for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

For the employees in Australia, the Group makes contributions to the mandatory social security savings scheme which serves to meet retirement needs at least every three months. The Employment Act of Australia requires that the Group makes contributions to the scheme based on certain percentages of the employees' before tax income. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were nil, nil, nil, nil, and AUD\$73 thousand (HK\$413 thousand) for the years ended December 31, 2019, 2020, and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

28. REGULATORY REQUIREMENTS

The Company's broker-dealer and insurance-broker subsidiaries, Futu Securities, Moomoo Financial Inc., Futu Clearing Inc., Moomoo Financial Singapore, Futu Insurance Brokers (Hong Kong) Limited and Futu Securities (Australia) Ltd. are subject to capital requirements determined by its respective regulators.

Futu Securities, the Company's subsidiary located in Hong Kong, was 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 and liquid capital.

Moomoo Financial Inc. and Futu Clearing Inc., the Company's subsidiaries located in the United States, were subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, which requires the maintenance of minimum net capital.

Moomoo Financial Singapore, the Company's subsidiary located in Singapore, was subject to the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations, which requires the maintenance of financial resource over its total risk requirement.

Futu Insurance Brokers (Hong Kong) Limited, was subject to Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules, which requires minimum net assets.

Futu Securities (Australia) Ltd., the Company's subsidiary located in Australia, was subject to Regulatory Guide 166 Licensing: Financial requirements, which requires the maintenance of surplus liquid funds when licensees hold client money or property.

The tables below summarizes the net capital, the requirement and the excess capital for the Group's broker-dealer subsidiaries as of December 31, 2019, 2020 and 2021 and June 30, 2022:

As of December 31, 2019			
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	1,469,200	235,481	1,233,719
Futu Clearing Inc.	72,908	1,947	70,961
Moomoo Financial Inc.	15,832	1,947	13,885
As of December 31, 2020			
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	2,453,687	1,286,263	1,167,424
Futu Clearing Inc.	131,415	1,938	129,477
Moomoo Financial Inc.	78,597	11,945	66,652
Moomoo Financial Singapore	56,775	586	56,189
Futu Insurance Brokers (Hong Kong) Limited	2,034	500	1,534
As of December 31, 2021			
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	6,666,092	1,631,080	5,035,012
Futu Clearing Inc.	3,308,395	97,565	3,210,830
Moomoo Financial Inc.	149,871	22,560	127,311
Moomoo Financial Singapore	345,424	156,646	188,778
Futu Insurance Brokers (Hong Kong) Limited	1,718	500	1,218
As of June 30, 2022			
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	6,243,794	1,593,608	4,650,186
Futu Clearing Inc.	3,456,065	303,734	3,152,331
Moomoo Financial Inc.	109,105	21,343	87,762
Moomoo Financial Singapore	685,433	193,142	492,291
Futu Insurance Brokers (Hong Kong) Limited	1,498	500	998
Futu Securities (Australia) Ltd.	90,381	1,250	89,131

Regulatory capital requirements could restrict the operating subsidiaries from expanding their business and declaring dividends if their net capital does not meet regulatory requirements.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, all of the regulated operating subsidiaries were in compliance with their respective regulatory capital requirements.

29. COMMITMENTS AND CONTINGENCIES

Commitments

The Group's commitments primarily related to capital contribution obligation for certain investment funds. Total commitments contracted but not yet reflected in the consolidated financial statements amounted to nil, nil, US\$104 million and US\$74 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

Contingencies

The financial services industry is highly regulated. From time to time, the licensed companies in the financial industry may be required to assist in and/or are subject to inquiries and/or examination by the regulatory authorities of the jurisdiction in where they operate. As of the date of approval of the consolidated financial statements, the Group reviews its regulatory inquiries and other legal proceedings on an ongoing basis and evaluates whether potential regulatory fines are probable, estimable and material and for updating its contingency reserves and disclosures accordingly. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the Group did not make any accrual for the aforementioned loss contingency.

30. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth major related parties of the Group and their relationships with the Group:

Name of Entity or individual	Relationship with the Group
Mr. Leaf Hua Li and his spouse	Principal shareholder and member of his immediate families
Tencent Holdings Limited and its subsidiaries ("Tencent Group")	Principal shareholder
Individual directors and officers and their spouses .	Directors or officers of the Group and members of their immediate families

(a) Cash and cash equivalent

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Cash and cash equivalent	240	149	372	355

The balance represents the cash deposited by the Group in various payment channels of Tencent Group for funding marketing campaigns, of which could be withdrawn on demand.

(b) Amounts Due to Related Parties

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i>
Trade in nature:				
Payables to Tencent Group in relation to ESOP management services	–	70,750	1,307	264
Payables in relation to cloud equipment and services from Tencent Group	33,153	16,062	85,887	63,945
SMS channel services from Tencent Group	475	357	265	230
	33,628	87,169	87,459	64,439

(c) Transactions with Related Parties

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Equipment purchased	40,218	4,496	45,658	1,208	–
Softwares purchased	–	508	3,869	–	1,553
Cloud service fee	16,729	48,940	114,386	46,029	92,149
SMS channel service fee	1,523	2,511	1,197	549	544
Advertising expenses	682	159	–	–	–
ESOP management service income	550	595	640	310	345
Other services	–	–	135	–	314
	59,702	57,209	165,885	48,096	94,905

The Group utilizes the cloud services, equipment and software 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. Tencent Group provides advertising services to the Group via Tencent Group's social media. The Group also earns revenue from Tencent Group by providing ESOP management service.

(d) Trade related transactions with Related Parties

Included in payables to clients in the consolidated balance sheets as of December 31, 2019, 2020 and 2021 and June 30, 2022, were payables to directors and officers of HK\$19,553 thousand, HK\$42,019 thousand, HK\$44,480 thousand and HK\$47,882 thousand, respectively. Revenue earned by providing brokerage services and margin loans to directors and officers and their spouses amounts to HK\$2,211 thousand, HK\$1,642 thousand, HK\$1,430 thousand, HK\$952 thousand and HK\$394 thousand for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

31. NOTE TO COMPANY BALANCE SHEETS (PARENT COMPANY ONLY)

Amounts due from/to subsidiaries and VIEs and VIEs' subsidiaries are unsecured and repayable on demand. The disclosures on investments in subsidiaries and VIEs and VIEs' subsidiaries, short-term investment, borrowings and shareholders' equity please refer to Note 1, Note 4, Note 10 and Note 13, respectively.

The subsidiaries did not pay any dividend to the Company for the years/periods presented.

The Company did not have significant capital and other commitments, or guarantees as of December 31, 2019, 2020 and 2021 and June 30, 2022.

32. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Fees	287	350	350	175	175
Basic salaries, housing fund, allowances and benefits in kind	4,614	8,799	11,310	5,457	5,939
Employer's contributions to a retirement benefit scheme	187	223	264	171	146
Discretionary bonuses	1,296	4,939	5,739	1,461	990
Share-based compensation expenses	–	–	6	3	3
Total	6,384	14,311	17,669	7,267	7,253

The directors received emoluments from the Group for the year ended December 31, 2019 as follows:

	Fees	Basic salaries, housing fund, allowances and benefits in kind	Employer's contributions to a retirement benefit scheme	Discretionary bonuses	Share-based compensation expenses	Total
	<i>(HK\$ in thousands)</i>					
Executive directors						
Leaf Hua Li ⁽¹⁾	–	4,061	110	1,151	–	5,322
Nineway Jie Zhang ⁽²⁾	–	553	77	145	–	775
Shan Lu ⁽³⁾	–	–	–	–	–	–
Eric Chi Zhang ⁽⁴⁾	–	–	–	–	–	–
Independent non- executive directors						
Vic Haixiang Li ⁽⁵⁾	–	–	–	–	–	–
Brenda Pui Man Tam ⁽⁶⁾	287	–	–	–	–	287
	287	4,614	187	1,296	–	6,384

The directors received emoluments from the Group for the year ended December 31, 2020 as follows:

	Fees	Basic salaries, housing fund, allowances and benefits in kind	Employer's contributions to a retirement benefit scheme	Discretionary bonuses	Share-based compensation expenses	Total
<i>(HK\$ in thousands)</i>						
Executive directors						
Leaf Hua Li ⁽¹⁾	–	8,190	124	4,705	–	13,019
Nineway Jie Zhang ⁽²⁾	–	609	99	234	–	942
Shan Lu ⁽³⁾	–	–	–	–	–	–
Eric Chi Zhang ⁽⁴⁾	–	–	–	–	–	–
Independent non-executive directors						
Vic Haixiang Li ⁽⁵⁾	–	–	–	–	–	–
Brenda Pui Man Tam ⁽⁶⁾	350	–	–	–	–	350
	<u>350</u>	<u>8,799</u>	<u>223</u>	<u>4,939</u>	<u>–</u>	<u>14,311</u>

The directors received emoluments from the Group for the year ended December 31, 2021 as follows:

	Fees	Basic salaries, housing fund, allowances and benefits in kind	Employer's contributions to a retirement benefit scheme	Discretionary bonuses	Share-based compensation expenses	Total
<i>(HK\$ in thousands)</i>						
Executive directors						
Leaf Hua Li ⁽¹⁾	–	10,493	141	5,414	6	16,054
Nineway Jie Zhang ⁽²⁾	–	817	123	325	–	1,265
Shan Lu ⁽³⁾	–	–	–	–	–	–
Eric Chi Zhang ⁽⁴⁾	–	–	–	–	–	–
Independent non-executive directors						
Vic Haixiang Li ⁽⁵⁾	–	–	–	–	–	–
Brenda Pui Man Tam ⁽⁶⁾	350	–	–	–	–	350
	<u>350</u>	<u>11,310</u>	<u>264</u>	<u>5,739</u>	<u>6</u>	<u>17,669</u>

The directors received emoluments from the Group for the six months ended June 30, 2021 as follows (unaudited):

	Fees	Basic salaries, housing fund, allowances and benefits in kind	Employer's contributions to a retirement benefit scheme	Discretionary bonuses	Share-based compensation expenses	Total
<i>(HK\$ in thousands)</i>						
Executive directors						
Leaf Hua Li ⁽¹⁾	–	5,075	90	1,353	3	6,521
Nineway Jie Zhang ⁽²⁾	–	382	81	108	–	571
Shan Lu ⁽³⁾	–	–	–	–	–	–
Eric Chi Zhang ⁽⁴⁾	–	–	–	–	–	–
Independent non-executive directors						
Vic Haixiang Li ⁽⁵⁾	–	–	–	–	–	–
Brenda Pui Man Tam ⁽⁶⁾	175	–	–	–	–	175
	<u>175</u>	<u>5,457</u>	<u>171</u>	<u>1,461</u>	<u>3</u>	<u>7,267</u>

The directors received emoluments from the Group for the six months ended June 30, 2022 as follows:

	Fees	Basic salaries, housing fund, allowances and benefits in kind	Employer's contributions to a retirement benefit scheme	Discretionary bonuses	Share-based compensation expenses	Total
<i>(HK\$ in thousands)</i>						
Executive directors						
Leaf Hua Li ⁽¹⁾	–	5,497	77	916	3	6,493
Nineway Jie Zhang ⁽²⁾	–	442	69	74	–	585
Shan Lu ⁽³⁾	–	–	–	–	–	–
Independent non-executive directors						
Vic Haixiang Li ⁽⁵⁾	–	–	–	–	–	–
Brenda Pui Man Tam ⁽⁶⁾	175	–	–	–	–	175
	<u>175</u>	<u>5,939</u>	<u>146</u>	<u>990</u>	<u>3</u>	<u>7,253</u>

- (1) Leaf Hua Li was appointed as executive director of the Company on April 15, 2014.
- (2) Nineway Jie Zhang was appointed as executive director of the Company on October 31, 2014.
- (3) Shan Lu was appointed as executive director of the Company on October 31, 2014.
- (4) Eric Chi Zhang was appointed as executive director of the Company on August 8, 2019 and resigned on September 14, 2021.
- (5) Vic Haixiang Li was appointed as non-executive director of the Company on March 7, 2019.
- (6) Brenda Pui Man Tam was appointed as non-executive director of the Company on March 7, 2019.

33. FIVE HIGHEST-PAID EMPLOYEES

The five highest-paid employees during the Track Record Period included the following number of directors and non-directors:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Directors	1	1	1	1	1
Non-directors	4	4	4	4	4
Total	5	5	5	5	5

Details of the remuneration for the Track Record Period of the five highest-paid employees who are non-directors (the "Non-director Individuals") were as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands) (unaudited)</i>	
Fees	–	–	–	–	–
Basic salaries, housing fund, allowances and benefits in kind	5,900	6,869	10,076	4,268	4,653
Employer's contributions to a retirement benefit scheme	224	160	277	141	134
Discretionary bonuses . . .	1,542	6,412	4,111	2,777	783
Share-based compensation expenses	4,369	3,297	20,082	2,135	23,587
Others	33	–	–	–	261
Total	12,068	16,738	34,546	9,321	29,418

The number of Non-director Individuals whose remuneration fell within the following bands is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(HK\$ in thousands)</i>			<i>(HK\$ in thousands)</i> <i>(unaudited)</i>	
HK\$1,500,001 to HK\$2,000,000	–	–	–	2	–
HK\$2,000,001 to HK\$2,500,000	2	–	–	1	–
HK\$3,000,001 to HK\$3,500,000	1	1	–	1	1
HK\$3,500,001 to HK\$4,000,000	–	1	–	–	–
HK\$4,000,001 to HK\$4,500,000	1	1	1	–	1
HK\$4,500,001 to HK\$5,000,000	–	–	–	–	1
HK\$5,000,001 to HK\$5,500,000	–	1	1	–	–
HK\$7,500,001 to HK\$8,000,000	–	–	1	–	–
HK\$16,500,001 to HK\$17,000,000	–	–	–	–	1
HK\$17,500,001 to HK\$18,000,000	–	–	1	–	–
Total	4	4	4	4	4

During the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, no remuneration was paid by the Group to any directors or Non-director Individuals as an inducement to join the Group.

During the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, no remuneration was paid by the Group to any directors or Non-director Individuals for loss of the office.

34. DIVIDENDS

No dividend was declared by the Group during the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2021 and 2022.

35. SUBSEQUENT EVENTS

In November, 2022, the Group entered into an acquisition agreement with the aim of acquiring 85% interest of a securities company at a maximum consideration of approximately HK\$18,016 thousand.

36. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Historical Financial Information is prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The effects of material differences prepared under U.S. GAAP and IFRS are as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(HK\$ in thousands)			(HK\$ in thousands) (unaudited)	
Reconciliation of net income attributable to the Company in the consolidated statements of comprehensive income					
Net income attributable to the Company in the consolidated statements of comprehensive income as reported under U.S. GAAP	165,664	1,325,523	2,810,210	1,696,190	1,213,525
IFRS adjustments:					
Classification and measurement of preferred shares (<i>Note (a)</i>)	(216,140)	–	–	–	–
Issuance costs (<i>Note (b)</i>)	(26,971)	–	(14,336)	–	(4,731)
Operating leases (<i>Note (c)</i>)	(3,204)	(1,913)	(2,238)	(1,741)	(132)
Share-based compensation (<i>Note (d)</i>)	(10,681)	(19,294)	(76,461)	(19,489)	(74,697)
Expected credit loss (<i>Note (e)</i>)	1,533	(7,475)	(2,520)	(2,636)	(2,651)
Net (loss)/income attributable to the Company in the consolidated statements of comprehensive income as reported under IFRS	<u>(89,799)</u>	<u>1,296,841</u>	<u>2,714,655</u>	<u>1,672,324</u>	<u>1,131,314</u>
				As of	June 30,
				2021	2022
				(HK\$ in thousands)	
Reconciliation of total shareholders' equity in the consolidated balance sheets					
Total shareholders' equity as reported under U.S. GAAP	2,548,553	8,307,690	20,985,559	19,552,820	
IFRS adjustments:					
Issuance costs (<i>Note (b)</i>)	–	–	(14,336)	(19,067)	
Operating leases (<i>Note (c)</i>)	(4,303)	(6,001)	(8,454)	(8,151)	
Expected credit loss (<i>Note (e)</i>)	(2,330)	(9,805)	(12,342)	(14,958)	
Total shareholders' equity as reported under IFRS	<u>2,541,920</u>	<u>8,291,884</u>	<u>20,950,427</u>	<u>19,510,644</u>	

(a) Classification and measurement of preferred shares

Under U.S. GAAP, SEC guidance provides for mezzanine-equity (temporary equity) category in addition to the financial liability and permanent equity categories. The purpose of this “in-between” category is to indicate that a security may not be a permanent part of equity. The Group classified the Preferred Shares as mezzanine equity in the consolidated balance sheets and are recorded initially at fair value, net of issuance costs. The Group recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to the earliest redemption date.

IFRS 9, “Financial instruments” has been adopted since January 1, 2018. Under IFRS, there is no concept of mezzanine or temporary equity classification. The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss which are initially recognized and subsequently measured at fair value. Subsequent to initial recognition, the amounts of changes in fair value of the Preferred Shares that were attributed to changes in credit risk of the Preferred Shares were recognized in other comprehensive income, and the remaining amounts of changes in fair value of the Preferred Shares were recognized in the profit or loss.

(b) Issuance costs

Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criterion for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of the Group in the capital market, and were allocated proportionately between the existing and new shares. As a result, the Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

(c) Operating leases

Under U.S. GAAP, for operating leases, the amortization of right-of-use assets and the interest expense element of lease liabilities are recorded together as operating lease expenses, which results in a straight-line recognition effect in the consolidated statements of operations and comprehensive loss.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured using the effective interest rate method, which generally yields a “front-loaded” expense with more expense recognized in earlier years of the lease.

(d) Share-based compensation

The Group granted options and restricted share units with service condition only to employees and modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to from US\$1.20 to US\$0.60 on December 30, 2019.

Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method. While under IFRS, the graded vesting method must be applied, the Group should treat each installment of the award as a separate grant, this means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.

(e) Expected credit loss

The Group is mainly exposed to credit risk associated with loans and advances.

Under U.S. GAAP, prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses. On January 1, 2020, the Group adopted FASB ASC Topic 326 and applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances.

Under IFRS, impairment model of financial assets is an expected loss model. The Group applies a three-stage impairment model to calculate their impairment allowance and recognise their expected credit losses from January 1, 2018 for loans and advances. The Group considers the credit risk characteristics of loans and advances when determining if there is significant increase in credit risk since the initial recognition. For loans and advances with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of exposure at default, probabilities of default and loss given default, based on the past history, existing market conditions as well as forward looking estimates.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to June 30, 2022. No dividend or distribution has been declared or made by the Group in respect of any period subsequent to June 30, 2022.

The following is the text of a report set out on pages IB-1 to IB-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. The information set out below is the unaudited interim condensed financial information of the Group for the nine months ended September 30, 2022, and does not form part of the Accountant's Report from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix IA to this document, and is included herein for information purpose only.



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD
OF DIRECTORS OF FUTU HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages IB-3 to IB-52, which comprises the interim condensed consolidated balance sheet of Futu Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at September 30, 2022 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in shareholders’ equity and the interim condensed consolidated statement of cash flows for the nine-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with U.S. GAAP.

Other Matter

The comparative information for the interim condensed consolidated balance sheet is based on the audited financial statements as at December 31, 2021. The comparative information for the interim condensed consolidated statements of comprehensive income, changes in shareholders' equity and cash flows, and related explanatory notes, for the period ended September 30, 2021 has not been audited or reviewed.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, December 22, 2022

FUTU HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except for share and per share data)

	<i>Note</i>	As of December 31, 2021 <i>HK\$</i>	As of September 30, 2022 <i>HK\$</i>
ASSETS			
Cash and cash equivalents		4,555,096	6,865,549
Cash held on behalf of clients		54,734,351	52,662,417
Term deposit		–	5,450
Restricted cash		2,065	1,870
Short-term investments	4	1,169,741	13,373
Securities purchased under agreements to resell		106,203	22,349
Loans and advances-current (net of allowance of HK\$12,258 thousand and HK\$25,913 thousand as of December 31, 2021 and September 30, 2022, respectively)	6	29,587,306	29,720,594
Receivables:			
Clients		469,577	271,855
Brokers		7,893,927	5,068,471
Clearing organizations		1,961,121	1,601,026
Fund management companies and fund distributors		72,340	80,584
Interest		50,829	146,338
Prepaid assets		18,306	25,711
Other current assets	7	81,594	110,153
Total current assets		<u>100,702,456</u>	<u>96,595,740</u>
Operating lease right-of-use assets	5	243,859	200,030
Long-term investments	8	23,394	245,724
Loans and advances – non-current	6	–	37,013
Other non-current assets	7	568,805	943,140
Total non-current assets		<u>836,058</u>	<u>1,425,907</u>
Total assets		<u><u>101,538,514</u></u>	<u><u>98,021,647</u></u>
LIABILITIES			
Amounts due to related parties	27(b)	87,459	53,602
Payables:			
Clients		59,127,439	54,948,151
Brokers		7,599,233	12,231,738
Clearing organizations		393,782	2,050,313
Fund management companies and fund distributors		56,690	71,143
Interest		15,359	15,340
Borrowings	9	6,357,405	6,547,293
Securities sold under agreements to repurchase		4,467,861	–
Operating lease liabilities – current	5	96,860	105,536
Accrued expenses and other current liabilities	10	2,176,213	1,683,822
Total current liabilities		<u>80,378,301</u>	<u>77,706,938</u>

	<i>Note</i>	<u>As of December 31, 2021</u> <i>HK\$</i>	<u>As of September 30, 2022</u> <i>HK\$</i>
Operating lease liabilities – non-current	5	163,719	107,740
Other non-current liabilities	10	10,935	20,726
Total non-current liabilities		<u>174,654</u>	<u>128,466</u>
Total liabilities		<u>80,552,955</u>	<u>77,835,404</u>
Commitments and Contingencies (Note 26)			
SHAREHOLDERS' EQUITY			
Class A ordinary shares (US\$0.00001 par value; 48,700,000,000 and 48,700,000,000 shares authorized as of December 31, 2021 and September 30, 2022, respectively; 737,944,914 and 803,555,356 shares issued and outstanding as of December 31, 2021 and September 30, 2022, respectively)	11	58	63
Class B ordinary shares (US\$0.00001 par value; 800,000,000 and 800,000,000 shares authorized as of December 31, 2021 and September 30, 2022, respectively; 494,552,051, and 430,552,051 shares issued and outstanding as of December 31, 2021 and September 30, 2022, respectively)	11	38	33
Additional paid-in capital		17,935,752	18,091,374
Treasury stock (29,462,760 and 110,839,528 shares as of December 31, 2021 and September 30, 2022, respectively)	11	(1,178,755)	(3,975,219)
Accumulated other comprehensive income/(loss)		75,994	(50,648)
Retained earnings		4,152,472	6,120,640
Total shareholders' equity		<u>20,985,559</u>	<u>20,186,243</u>
Total liabilities and shareholders' equity		<u>101,538,514</u>	<u>98,021,647</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME
(In thousands, except for share and per share data)

	Note	Nine months ended September 30,	
		2021 HK\$	2022 HK\$
Revenues			
Brokerage commission and handling charge income	16	3,056,091	2,959,050
Interest income	17	1,900,608	2,076,484
Other income	18	555,812	297,774
Total revenues		<u>5,512,511</u>	<u>5,333,308</u>
Costs			
Brokerage commission and handling charge expenses	19,22	(484,462)	(265,795)
Interest expenses	20	(321,286)	(110,525)
Processing and servicing costs	21,22	(183,463)	(277,642)
Total costs		<u>(989,211)</u>	<u>(653,962)</u>
Total gross profit		<u>4,523,300</u>	<u>4,679,346</u>
Operating expenses			
Research and development expenses	22	(534,692)	(887,613)
Selling and marketing expenses	22	(1,055,101)	(742,692)
General and administrative expenses	22	(311,147)	(600,802)
Total operating expenses		<u>(1,900,940)</u>	<u>(2,231,107)</u>
Others, net		(9,691)	(219,175)
Income before income tax expenses and share of loss from equity method investment		<u>2,612,669</u>	<u>2,229,064</u>
Income tax expenses	23	(301,268)	(247,572)
Share of loss from equity method investment		–	(13,324)
Net income		<u>2,311,401</u>	<u>1,968,168</u>
Net income attributable to ordinary shareholders of the Company		<u>2,311,401</u>	<u>1,968,168</u>
Net income		2,311,401	1,968,168
Other comprehensive income/(loss), net of tax			
Foreign currency translation adjustment		24,084	(126,642)
Total comprehensive income		<u>2,335,485</u>	<u>1,841,526</u>
Net income per share attributable to ordinary shareholders of the Company			
Basic	14	1.94	1.72
Diluted		1.91	1.70
Net income per ADS			
Basic		15.50	13.72
Diluted		15.26	13.59
Weighted average number of ordinary shares used in computing net income per share			
Basic	14	1,192,527,761	1,147,484,439
Diluted		1,212,191,974	1,158,401,576

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except for share and per share data)

	Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital		Accumulated other comprehensive (loss)/income		Retained earnings		Total equity	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Note	HK\$		HK\$		HK\$		HK\$		HK\$		HK\$		HK\$	
As of January 1, 2022	737,944,914	58	494,552,051	38	(29,462,760)	(1,178,755)	17,935,752	75,994	4,152,472	20,985,559				
Profit for the period	-	-	-	-	-	-	-	-	-	1,968,168	-	-	-	1,968,168
Share-based compensation	-	-	-	-	-	-	148,705	-	-	-	-	-	-	148,705
Shares issued upon exercise of employee share options	1,610,448	-	-	-	-	-	-	6,917	-	-	-	-	-	6,917
Surrendered and cancellation of Class A ordinary shares	(6)	-	-	-	-	-	-	-	-	-	-	-	-	-
Share conversion from Class B to Class A	64,000,000	5	(64,000,000)	(5)	-	-	-	-	-	-	-	-	-	-
Treasury share purchases	-	-	-	-	(81,376,768)	(2,796,464)	-	-	-	-	-	-	-	(2,796,464)
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	-	(126,642)	-	-	-	-	(126,642)
Balance at September 30, 2022	803,555,356	63	430,552,051	33	(110,839,528)	(3,975,219)	18,091,374	(50,648)	6,120,640	20,186,243	-	-	-	20,186,243

Note	Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital		Accumulated other comprehensive (loss)/income		Retained earnings		Total equity	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
		HK\$		HK\$		HK\$		HK\$		HK\$		HK\$		HK\$
As of January 1, 2021	590,139,760	47	494,552,051	38	-	-	6,960,369	4,974	1,342,262	8,307,690				
Profit for the year	-	-	-	-	-	-	-	-	-	2,311,401	2,311,401	-	-	2,311,401
Share-based compensation	-	-	-	-	-	-	64,295	-	-	-	-	-	-	64,295
Shares issued upon exercise of employee share options/restricted share units ("RSUs")	4,192,000	-	-	-	-	-	11,787	-	-	-	-	-	-	11,787
Issuance of ordinary shares	87,400,000	7	-	-	-	-	10,856,518	-	-	-	-	-	-	10,856,525
Exercise of pre-funded warrants	53,599,890	4	-	-	-	-	(4)	-	-	-	-	-	-	-
Foreign currency translation adjustment, net of tax	-	-	-	-	-	-	-	24,084	-	-	-	-	-	24,084
Balance at September 30, 2021	735,331,650	58	494,552,051	38	-	-	17,892,965	29,058	3,653,663	21,575,782	21,575,782	-	-	21,575,782

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH
FLOW
(In thousands)

	<i>Note</i>	Nine months ended September 30,	
		2021	2022
		<i>HK\$</i>	<i>HK\$</i>
Cash flows from operating activities			
Net income		2,311,401	1,968,168
Adjustments for:			
Depreciation and amortization	22	24,730	41,046
Expected credit loss expenses		2,815	13,620
Share of loss from equity method investment		–	13,324
Impairment from other non-current assets		–	62,565
Foreign exchange (gains)/losses		(85,904)	101,528
Share-based compensation	13	64,295	148,705
Realized gain from short-term investments		–	(16,919)
Fair value losses		–	8,989
Deferred income tax benefit	23	(8,266)	(11,707)
Amortisation of right-of-use assets		61,567	65,932
Changes in operating assets:			
Net (increase)/decrease in securities purchased under agreements to resell		(10,000)	83,854
Net increase in loans and advances		(12,011,505)	(183,956)
Net (increase)/decrease in accounts receivable from clients and brokers		(3,104,633)	3,023,178
Net decrease in accounts receivable from clearing organizations		116,202	364,015
Net decrease/(increase) in accounts receivable from fund management companies and fund distributors		167,067	(8,244)
Net increase in interest receivable		(18,218)	(95,509)
Net increase in prepaid assets		(7,915)	(5,469)
Net increase in other assets		(121,226)	(464,987)
Changes in operating liabilities:			
Net (decrease)/increase in amounts due to related parties		(49,290)	4,567
Net increase in accounts payable to clients and brokers		17,468,089	453,196
Net increase in accounts payable to clearing organizations		337,671	1,656,531
Net (decrease)/increase in accounts payable to fund management companies and fund distributors		(73,172)	14,453
Net (decrease)/increase in payroll and welfare payable		(5,798)	161,408
Net increase/(decrease) in interest payable		8,151	(19)
Net decrease in operating lease liabilities		(51,469)	(71,875)
Net decrease in securities sold under agreements to repurchase		(541,530)	(4,467,861)
Net increase/(decrease) in other liabilities		731,721	(688,250)
Net cash generated from operating activities		<u>5,204,783</u>	<u>2,170,283</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

	Note	Nine months ended September 30,	
		2021	2022
		HK\$	HK\$
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(57,419)	(75,485)
Purchase of short-term investments		–	(3,377,186)
Proceeds from disposal of short-term investments . .		–	4,560,076
Acquisition of long-term investments		–	(235,434)
Maturity of term deposits		300,000	–
Cash paid for acquisition, net of cash acquired . . .		–	(102,008)
Net cash generated from investing activities		242,581	769,963
Cash flows from financing activities			
Proceeds from public offering, net of issuance costs		10,856,525	–
Proceeds from exercise of employee share options . .		19,842	13,446
Purchase of treasury stock		–	(2,796,464)
Proceeds from other borrowings		42,974,942	55,493,584
Repayment of other borrowings		(40,515,517)	(55,296,296)
Payment of other financing expenses		(348)	(8,093)
Net cash generated from/(used in) financing activities		13,335,444	(2,593,823)
Effect of exchange rate changes on cash, cash equivalents and restricted cash		88,578	(108,099)
Net increase in cash, cash equivalents and restricted cash		18,871,386	238,324
Cash, cash equivalents and restricted cash at beginning of the period		43,521,758	59,291,512
Cash, cash equivalents and restricted cash at end of the period		62,393,144	59,529,836
Cash, cash equivalents and restricted cash			
Cash and cash equivalents		2,082,051	6,865,549
Cash held on behalf of clients		60,311,093	52,662,417
Restricted Cash		–	1,870
Cash, cash equivalents and restricted cash at end of the period		62,393,144	59,529,836
Supplemental disclosure			
Interest paid		(313,135)	(110,544)
Income tax paid		(93,707)	(309,296)
Cash paid for amounts included in operating lease liabilities		(64,955)	(81,343)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

1. GENERAL INFORMATION, 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 entities (“VIEs”) and subsidiaries of the VIEs (collectively referred to as the “Group”). The Group principally engages in online financial services including securities and derivative trades brokerage, margin financing and fund distribution services based on internally developed software and digital platform “Futubull” and “Moomoo”. The Group also provides financial information and online community services, etc. The Company completed its IPO on March 8, 2019 on the Nasdaq Global Market. Each American Depositary Shares (“ADSs”) represents eight of the Company’s Class A ordinary shares.

As of September 30, 2022, the Company’s principal subsidiaries, consolidated VIE are as follows:

Companies	Date of Incorporation/ Establishment/	Place of Incorporation/ Establishment	Percentage of Direct or Indirect Economic Interest	Principal Activities
Subsidiaries				
Futu Securities International (Hong Kong) Limited (“Futu Securities”)	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	August 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
Moomoo Financial Inc ⁽¹⁾ (previous name: Futu Inc.)	December 17, 2015	Delaware, USA	100%	Financial services
Futu Clearing Inc.	August 13, 2018	Delaware, USA	100%	Financial services
Moomoo Financial Singapore Pte. Ltd ⁽¹⁾ (previous name: Futu Singapore Pte. Ltd)	December 17, 2019	Singapore	100%	Financial services
Futu Securities (Australia) Ltd.	February 15, 2001	New South Wales, Australia	100%	Financial services
VIE				
Shenzhen Futu Network Technology Co., Ltd. ⁽²⁾ (“Shenzhen Futu”)	December 18, 2007	Shenzhen, PRC	100%	Research and development and technology services

Notes:

- (1) These subsidiaries changed company names in June 2022.
- (2) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of the Company and held 85% and 15% 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.

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

The 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").

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of the Company, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of September 30, 2022, its results of operations and cash flows for the nine months ended September 30, 2021 and 2022. The unaudited interim condensed consolidated balance sheet as of December 31, 2021, was derived from audited financial statements as of that date, but does not contain all of the footnote disclosures required by U.S. GAAP for a complete set of financial statements. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and related footnotes for the year ended December 31, 2021. 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 VIEs and subsidiary of the VIEs 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 VIEs and subsidiaries of the VIEs have been eliminated upon consolidation.

VIE Companies**(1) Contractual Agreements with VIEs**

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") between the Company's PRC subsidiary, Shen Si, and the VIEs. Through the Contractual Agreements, the VIEs are effectively controlled by the Company.

Shareholders' Voting Rights Proxy Agreements. Pursuant to the Shareholders' Voting Rights Proxy Agreements, each shareholder of VIEs irrevocably authorized Shen Si or any person(s) designated by Shen Si to exercise such shareholder's rights in VIEs, 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 VIEs. The shareholders' voting rights proxy agreements remain 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 Agreements. Pursuant to the Business Operation Agreements, VIEs and their shareholders undertake that without Shen Si's prior written consent, VIEs shall not enter into any transactions that may have a material effect on VIEs' assets, business, personnel, obligations, rights or business operations. VIEs and their shareholders shall elect directors nominated by Shen Si and such directors shall nominate officers designated by Shen Si. The business operation agreements 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.

Equity Interest Pledge Agreements. Pursuant to the Equity Interest Pledge Agreements, each shareholder of VIEs 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 VIEs and their shareholders discharge all their obligations under the contractual arrangements.

Exclusive Technology Consulting and Services Agreements. Under the Exclusive Technology Consulting and Services Agreements between Shen Si and the VIEs, Shen Si has the exclusive right to provide VIEs 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, VIEs shall not accept any technology consulting and services covered by these agreements from any third party. VIEs agree 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 these agreements or otherwise agreed with Shen Si, these agreements 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 Agreements. Pursuant to the Exclusive Option Agreements, each shareholder of VIEs 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 VIEs. 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 VIEs 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 VIEs, (ii) transfer or otherwise dispose of his or her equity interests in VIEs, (iii) change VIEs' registered capital, (iv) amend VIEs' articles of association, (v) liquidate or dissolve VIEs, or (vi) distribute dividends to the shareholders of VIEs. In addition, VIEs undertake that, without the prior written consent of Shen Si, they will not, among other things, dispose of VIEs' 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 their assets, or transfer or otherwise dispose of their material assets. Unless otherwise terminated by Shen Si, these agreements 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 VIEs and their subsidiary taken as a whole, which were included in the Group's consolidated financial statements with intercompany balances and transactions eliminated between the VIEs and their subsidiary:

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Total assets	254,602	293,717
Total liabilities	176,204	168,791
	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Total operating revenue	134,812	201,216
Net income	24,520	48,110

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Net cash generated from operating activities	3,328	25,847
Net cash used in investing activities	(3,187)	–
Net cash generated from financing activities	–	8,107
Net increase in cash and cash equivalents	141	33,954
Cash and cash equivalents at beginning of the period	3,738	2,751
Cash and cash equivalents at end of the period	3,879	36,705

Transactions between the VIE and other entities in the consolidated group

As of December 31, 2021 and September 30, 2022, total assets include amounts due from internal companies in the consolidated group in the amount of HK\$190,424 thousand and HK\$216,696 thousand, respectively. Total liabilities include amounts due to the internal companies in the amount of HK\$80,435 thousand and HK\$87,483 thousand, respectively. For the nine months ended September 30, 2021 and 2022, the VIE earned inter-company revenues in the amounts of HK\$118,000 thousand and HK\$182,834 thousand, respectively. In addition, for the nine months ended September 30, 2021 and 2022, the repayment of advances to Group companies by the VIE are in the amount of nil and nil, and VIE proceeded from advances from Group companies in the amount of nil, HK\$8,107 thousand, respectively. All of these balances and transactions have been eliminated in consolidation.

Under the Contractual Agreements with the VIEs, the Company has the power to direct activities of the VIEs and VIEs' subsidiaries, and can have assets transferred out of the VIEs and VIEs' subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIEs and there is no asset of the VIEs that can only be used to settle obligations of the VIEs and VIEs' subsidiaries, except for registered capital of the VIEs and their subsidiary amounting to RMB10 million as of December 31, 2021 and September 30, 2022, respectively. Since the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs 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 VIEs. However, as the Company is conducting certain businesses through its VIEs and VIEs' 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 VIEs and their 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 VIEs and VIEs' subsidiaries in the consolidated financial statements.

On March 15, 2019, the Foreign Investment Law was formally passed by the thirteenth National People's Congress and it was taken effect on January 1, 2020. The Foreign Investment Law replaces the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Cooperative Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate contractual arrangements such as those we rely on as a form of foreign investment. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors investing through any other methods under laws, administrative regulations or provisions prescribed by the State Council." Future laws, administrative regulations or provisions prescribed by the State Council may possibly regard Contractual Arrangements as a form of foreign investment. In the event that the State Council in the future promulgates laws and regulations that deem investments made by foreign investors through contractual arrangements as "foreign investment", the Group's ability to use the contractual arrangements with its VIEs and the Group's ability to conduct business through the VIEs could be severely limited.

The Company's ability to control the VIEs also depends on the power of attorney Shen Si has to vote on all matters requiring shareholders' approvals in the VIEs. 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 VIEs 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 VIEs or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIEs. 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 VIEs is remote.

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, costs and expenses during the reported period in the consolidated financial statements and accompanying notes. These accounting estimates reflected in the Group's consolidated financial statements mainly include, but are not limited to, the estimation of the expected usage and the estimated relative standalone selling price of the incentive points and coupons, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, expected credit losses on financial instruments, assessment for impairment of long-term investments and other non-current assets, present value for expected future leasing payment, contingency reserve, provision of income tax and valuation allowance for deferred tax asset, and valuation of financial instruments measured at fair value. 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 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 consolidated balance sheets.

Current Expected Credit Losses

Prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The identified impairment loss was immaterial prior to January 1, 2020.

On January 1, 2020, the Group adopted FASB ASC Topic 326 – “Financial Instruments – Credit Losses” (“ASC Topic 326”) which replaces the incurred loss methodology with the current expected credit loss (“CECL”) methodology. The new guidance applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets.

The Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no material impact on the Group’s retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP. The Group’s in-scope assets are primarily loans and advances that are collateralized by client securities and the collateral is required to be maintained at specified minimum levels at all times. The Group monitors margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. The Group applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient, when the Group reasonably expects that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral’s fair value is greater than the amortized cost of the financial assets. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. For the nine months ended September 30, 2021 and 2022, expected credit loss expenses of HK\$2,815 thousand and HK\$13,620 thousand, resulting from the assessment of credit losses for the loans and advances under ASC Topic 326 at period-end were recognized in “Others, net” in the consolidated statements of comprehensive income, respectively.

An allowance for credit losses on other financial assets, including receivables from clients, brokers, clearing organizations and fund management companies and fund distributors, is estimated based on the aging of these financial assets.

Receivables from clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within a few days from the trade date. Because these receivables involve customers who have no recent history of default, and the settlement periods are usually short, the credit risk arising from receivables from clients is considered low. In respect of the receivables from brokers, clearing organizations and fund management companies and fund distributors, the management considers that these receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation. As a result, the allowance for credit losses for other financial assets were immaterial for all periods presented.

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’ monies 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.

Term Deposit

Term deposit consists of bank deposits with an original maturity of greater than three months.

Restricted Cash

The Group is required to maintain restricted cash deposits for certain property leases. These funds are restricted and have been classified as such on our consolidated balance sheets due to the nature of restriction.

Short-term Investments

The Group classifies certain financial assets with highly liquidity and original maturities less than twelve months as short-term investments. The Group's short-term investments consist of money market funds and financial assets at fair value through profit or loss. The Group values its money market funds and financial assets at fair value through profit or loss using quoted prices in active markets for these investments, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Transactions involving purchases of securities under agreements to resell (resell agreements) and transactions involving sales of securities under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions.

Under resell agreements, the Group pays cash to counterparties and receives securities as collateral. These agreements are carried at amounts at which the securities will subsequently be resold, and the interest income received by the Group is recorded as interest income in the consolidated statements of comprehensive income.

Under repurchase agreements, the Group receives cash from counterparties and provides securities as collateral. These agreements are carried at amounts at which the securities will subsequently be repurchased, and the interest expense incurred by the Group is recorded as interest expenses in the consolidated statements of comprehensive income.

Loans and advances

Loans and advances include margin loans, IPO loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for credit losses. Revenues earned from the loans and advances are included in interest income.

Margin loans are extended to clients on a demand basis and are not committed facilities. Securities owned by the customers, which are not recorded in the consolidated balance sheets, are held as collateral for amounts due on the margin loans.

IPO loans for subscription of new shares are normally settled within one week from the drawdown date. Once IPO stocks are allotted, the Group 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.

Other advances mainly consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral.

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.

The balances will be written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trading Receivables from and Payables to Clients

Trading receivables from clients include amounts due on brokerage transactions on a trade-date basis. Trading payables to clients represent the closing cash balance to the customers, which mainly include cash deposits and amounts due on brokerage transactions on a trade date basis.

Receivables from and Payables to Brokers, Clearing Organizations and Fund Management Companies and Fund Distributors

Receivables from and payables to brokers, clearing organizations and fund management companies and fund distributors include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities, derivatives or funds trades not delivered by the Group to the purchaser by the settlement date and cash deposits, and amounts payable for securities, derivatives or funds trades not received by the Group 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 organizations.

The Group borrowed margin loans from executing brokers, with the benchmark interest rate plus premium differentiated depending on the amount borrowed, and immediately lent to margin financing clients. Margin loans borrowed is recognized in the payables to brokers.

The Group's policy is to net the receivables from and payables to clearing organizations according to ASC Topic 210-20, when all of the following conditions are met:

- (a) Each of two parties owes the other determinable amounts.
- (b) The reporting party has the right to set off the amount owed with the amount owed by the other party.
- (c) The reporting party intends to set off.
- (d) The right of setoff is enforceable at law.

Interest Receivable and Payable

Interest receivable which is included in receivables is calculated based on the contractual interest rate of bank deposit, loans and advances, securities loaned and receivables on an accrual basis, and is recorded as interest income as earned.

Interest payable which is included in payables is calculated based on the contractual interest rates of payables, borrowings, securities borrowed and securities sold under agreements to repurchase on an accrual basis, and is recorded as interest expense when incurred.

Securities Borrowed and Securities Loaned

Securities borrowed transactions require the Group to provide counterparties with collateral, which may be in the form of cash, or other securities. With respect to securities loaned, the Group receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Receivables and payables related to securities borrowed and securities loaned are included at receivables from and payables to brokers or clients in the consolidated balance sheets. Securities lending fees received and securities borrowing fees paid by the Group are included in interest income and interest expense, respectively, in the consolidated statements of comprehensive income.

Leases

In an operating lease, a lessee obtains control of only the use of the underlying asset, but not the underlying asset itself. An operating lease is recognized as a right-of-use asset with a corresponding liability at the date which the leased asset is available for use by the Group.

The Group's operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company makes an accounting policy election not to separate non-lease components to measure the lease liability and lease asset.

The lease liability is initially measured at the present value of the future lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. The lease payments are discounted using the rate implicit in the lease or, if not readily determinable, the Group's secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of debt issued with a similar risk profile as the Group and a duration similar to the lease term. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

After commencement of the operating lease, the Group recognizes lease expenses on a straight-line basis over the lease term. The subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement. The right-of-use asset is subsequently measured at cost less accumulated amortization and any impairment provision. The amortization of the right-of-use asset represents the difference between the straight-line lease expense and the accretion of interest on the lease liability each period. The interest amount is used to accrete the lease liability and to amortize the right-of-use asset. There is no amount recorded as interest expense.

All of the Group's leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities. As of December 31, 2021 and September 30, 2022, the weighted-average remaining lease term on these leases is approximately three years and three years, respectively, and the weighted-average discount rate used to measure the lease liabilities was approximately 4.71% and 4.65%, respectively.

For the nine months ended September 30, 2021 and 2022, right-of-use assets obtained under operating leases was HK\$83,265 thousand and HK\$44,793 thousand, respectively. The Group's lease agreements do not contain any residual value guarantees, restrictions or covenants.

Refundable Deposit

Refundable deposit is included in other assets in the consolidated balance sheets. As a clearing member firm of securities and derivatives clearing organizations in Hong Kong, Singapore and the U.S., the Group is also exposed to clearing member credit risk. These clearing organizations require member firms to deposit cash to a clearing fund. If a clearing member defaults in its obligations to the clearing organizations 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. Many clearing organizations of which the Group is member have 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 additional funds.

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.

Category	Estimated useful lives	Residual rate
Computers equipment	3-5 years	5%
Furniture and fixtures	3-5 years	5%
Office equipment	3-5 years	5%
Office building	30 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, licenses and other intangible assets.

Finite-lived intangible assets are carried at historical cost less accumulated amortization and accumulated impairment losses, if any. Amortization of finite-lived intangible assets is calculated using the straight-line method to allocate costs over the estimated useful lives. Pursuant to topic ASC 350 Intangibles — Goodwill and Other, the useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. If an income approach is used to measure the fair value of the license, in determining the useful life of the intangible asset for amortization purposes, the period of expected cash flows used to measure the fair value of the license should be considered. The following is a summary of estimated useful lives:

Category	Estimated useful lives
Computer software	5 years
Licenses ⁽¹⁾	10 years

- (1) The income approach was used to measure the fair value of the licenses, and the period of expected cash flows used to measure the fair value of the licenses is considered by the Group in determining the useful lives of the related licenses. Based on historical performance, market prospects and other macroeconomic conditions, the Group estimates that the useful lives of the related licenses are 10 years.

The other licenses recognised as infinite-lived intangible assets consist of an insurance broker license and a financial services license. The Group obtained an insurance broker license through acquiring a member of the Hong Kong Professional Insurance Brokers Association. The Group obtained some financial securities licenses via acquisition of subsidiaries. Such intangible assets were recognised as indefinite-lived as the cash flows were expected to continue indefinitely on the brokerage and financial service business in above regions.

The Group had held a futures trading right as a clearing member firm of HKEx in order to trade futures through the trading facilities of the Stock Exchange, and has recognized it as intangible assets. As trading right has an indefinite useful life and have no foreseeable limit to the period over which the Group can use to generate net cash flows, it will not be amortised until their useful lives are determined to be finite.

The aforementioned indefinite-lived intangible assets are carried at cost less accumulated impairment losses. The Group evaluates the remaining useful life of an indefinite-lived intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful lives. The Group will not amortize the indefinite-lived intangible assets until their useful lives are determined to be finite. An intangible asset that is not subject to amortization will be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Long-term investments**(1) Equity method investments**

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

In accordance with ASC 323 Investment – Equity Method and Joint Ventures, the Group accounts for equity method investments over which the Group has significant influence but does not own a majority of the equity interest or otherwise controls and the investments are either common stock or in substance common stock using the equity method. For the investments in limited partnerships, the equity method of accounting for investments is generally appropriate for accounting by limited partners. According to ASC 323-30-S99-1, the investments in all limited partnerships should be accounted for pursuant to paragraph 970-323-25-6. That guidance requires the use of the equity method unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies." Investments of more than 3 to 5 percent are generally viewed to be more than minor. The Group's share of the investee's profit and loss is recognized in the consolidated statements of comprehensive income of the period.

The carrying amount of equity method investments is tested for impairment whenever there is an indication that the carrying amount may be impaired in accordance with the policy described in “Impairment of long-lived assets”.

(2) *Equity investments without readily determinable fair values*

In accordance with ASC 321 Investment – Equity Securities, for those equity investments without readily determinable fair values, the Group elects to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of the equity investment are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Pursuant to ASC 321, for those equity investments that the Group elects to use the measurement alternative, the Group makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and fair value.

Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment by comparing carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. Impairment charge recognized for the nine months ended September 30, 2021 and 2022 was nil and nil, respectively.

Treasury stock

The Group accounted for those shares repurchased as treasury stock at cost of purchase, Treasury stock, and is shown separately in the shareholders’ equity as the Group has not yet decided on the ultimate disposition of those shares acquired. When the Group decides to cancel the treasury stock, the difference between the original issuance price and the repurchase price is debited into additional paid-in capital. Refer to Note 11 for details.

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.

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, restricted cash, receivables from and payables to clients, brokers, clearing organizations and fund management companies and fund distributors, accrued interest receivable, accrued interest payable, amounts due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Term deposit, loans and advances, borrowings, securities purchased under agreements to resell, securities sold under agreements to repurchase and operating lease liabilities are carried at amortized cost. The carrying amount of term deposit, loans and advances, borrowings and operating lease liabilities approximate their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Short-term investments are measured at fair value.

The Group's non-financial assets, such as operating lease right-of-use assets, long-term investments, property and equipment and intangible assets, would be measured at fair value only if they were determined to be impaired.

Revenue Recognition

(1) Brokerage commission and handling charge income

Brokerage commission income earned for executing transactions is accrued on a trade-date basis.

Handling charge income arise from the services such as clearing and settlement services, subscription and dividend collection handling services, etc., are accrued on a trade-date basis.

Brokerage commission and handling charge income are recognised at a point in time when the service has been passed to the customer.

(2) Interest income

The Group earns interest income primarily in connection with its margin financing and securities lending services, IPO financing, bridge loan and deposits with banks, which are recorded on an accrual basis and are included in interest income in the consolidated statements of comprehensive income. Interest income is recognized as it is accrued over time using the effective interest method.

(3) Other income

Other income consists of enterprise public relations service charge income provided to corporate clients, underwriting fee income, IPO subscription service charge income, currency exchange service income from clients, income from market data service and funds distribution service income from fund management companies, etc.

Enterprise public relations service charge income is charged to corporate clients by providing platform to post their detailed stock information and latest news in Futubull 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).

Underwriting fee income is generated from investment banking business primarily by providing equity sub-underwriting to corporate issuers.

IPO subscription service charge income is derived from provision of new share subscription services in relation to IPOs in the Hong Kong capital market.

Currency exchange service income is charged to the Group's paying clients for providing currency exchange service.

Market information and data income is charged to Futubull and Moomoo app users for market data service.

Funds distribution service income is charged to fund management companies for providing fund products distribution service to Futu's individual clients. The Group, as an intermediary would receive subscription fees from fund management companies as agreed in the service contracts.

For enterprise public relations service charge income, funds distribution service income, market information and data income and ESOP management service income, the service revenues are recognized ratably over the term of the service contracts.

For IPO subscription service charge income, underwriting fee income and currency exchange service income, the Group recognizes the revenues upon the time when the services are rendered to customers.

Customer Loyalty Program

The Group operates a customer loyalty program to its customers that offer various incentives in the form of incentive points and coupons for redemption of free or discounted goods or services.

For the incentives generated from current sales transaction, the Group defers a portion of commission income with corresponding liability reflected as contract liability attributable to the incentives. The contract liability is determined by management based on the expected usage of the incentive points and coupons, and their estimated relative standalone selling price based on the related goods and services. Significant judgment was made by management in determining the expected usage and estimated relative standalone selling price of the incentive points and coupons, derived from historical trading volume, commission rates and redemption patterns, and an evaluation as to whether historical activities are representative of the expected future activities.

For the incentives offered for future sales transaction, the Group nets a portion of brokerage commission income attributable to the incentives when points or coupons are actually redeemed.

For the incentives not offered for future sales transaction, the Group considers them as a payment of other distinct goods that would be granted to clients. Such incentives are accounted for as selling and marketing expense with corresponding liability reflected as other liability in the consolidated balance sheet.

The table below presents the deferred or netted brokerage commission income related to the customer loyalty program for the nine months ended September 30, 2021 and 2022.

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Brokerage commission income, gross	2,860,846	2,631,790
Less: revenue netted or deferred	(406,627)	(243,002)
Brokerage commission income, net	<u>2,454,219</u>	<u>2,388,788</u>

As of December 31, 2021 and September 30, 2022, contract liabilities recorded related to the customer loyalty program were HK\$8,968 thousand and HK\$6,278 thousand, respectively. The Group expects to recognize the revenue when points and coupons are actually redeemed. Historically, the revenue was usually recognized within 1-3 years from the time the contract liability was first recognized.

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 for securities and derivative trades in the United States stock and derivative markets as the Group makes securities and derivative trades with these brokers as principal.

Handling and settlement fee is charged by HKEx or executing brokers 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 consist of interest expenses of borrowings from banks, other licensed financial institutions and other parties paid to fund the Group's margin financing business, securities borrowing business and IPO financing business.

Processing and Servicing Costs

Processing and servicing costs consist of market information and data fee, data transmission fee, cloud service fee, system cost, 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. The nature of system cost mainly represents for the fee to access and use the systems paid to software providers.

Research and Development Expenses

Research and development expenses consist of expenses related to developing transaction platform and website like Futubull app and other products, including payroll and welfare, rental expenses and other related expenses for personnel engaged in research and development activities. 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 income.

General and Administrative Expenses

General and administrative expenses consist of payroll, rental, 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, expected credit loss expenses, gain or loss from investments and impairment from long-term investments and other non-current assets for all periods presented.

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 income.

Share-Based Compensation

The Company follows ASC 718 to determine whether a share option and a restricted share units should be classified and accounted for as a liability award or equity award. All share-based awards to employees and directors classified as equity awards, such as stock options and restricted share units, 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 modification of the terms or conditions of the existing share-based award is treated as an exchange of the original award for a new award. The incremental compensation expenses are equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For stock options already vested as of the modification date, the Group immediately recognized the incremental value as compensation expenses. For stock options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these stock options.

The Company determined the fair value of the restricted share units with reference to the fair value of the underlying shares as of the grant date. The Company utilizes the binomial option pricing model to estimate the fair value of stock options granted, with the assistance of an independent valuation firm.

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 Pre-IPO Ordinary Shares

Shares of the Company, which did 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 pre-IPO ordinary shares. The method treats preferred shares and pre-IPO 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 pre-IPO 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 IPO, 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 consolidated statements of comprehensive 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.

(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, 2021 and 2022, the Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

Net income per share

Basic net income per share is computed by dividing net 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 income per share is calculated by dividing net 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 and vesting of restricted share units using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net 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 has been identified as the Chief Executive Officer who 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. 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 financial instruments. The Group is not exposed to significant transactional foreign currency risk since almost all of its transactions, assets and liability are denominated in Hong Kong dollars and U.S. dollars and 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 income. At the same time, the Group is exposed to translational foreign currency risk since some of the Company's major 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 income. The Group enters into currency futures contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. The overall impact of the currency risk of other foreign currency assets held by the Group other than U.S. dollars and Renminbi is not significant.

As of December 31, 2021 and September 30, 2022, the Group had RMB-denominated net assets of HK\$2,374.8 million and net assets of HK\$1,894.9 million, respectively. We estimate that a 10% depreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2021 and September 30, 2022, would result in a decrease of US\$30.5 million and a decrease of US\$24.1 million, respectively, in the Group's pre-tax profit. We estimate that a 10% appreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2021 and September 30, 2022 would result in an increase of US\$30.5 million and an increase of US\$24.1 million, respectively, in the Group's pre-tax profit.

(2) Credit risk

Cash held on behalf of clients are segregated and deposited in financial institutions as required by rules mandated by the Group's primary regulators. These financial institutions are of sound credit ratings, therefore management believes that there is no significant credit risk related to cash held on behalf of clients.

The Group's securities and derivative trades 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 and derivatives clearing organizations. 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 fail 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.

For cash management purposes, the Group enters into short-term securities sold under agreements to repurchase transactions ("repos") in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Group attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group as permitted under contractual provisions.

Concentrations of Credit Risk

The Group's exposure to credit risk associated with its brokerage 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, 2021 and 2022, 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, 2021 and September 30, 2022, the Group did not have any material concentrations of credit risk within or outside the ordinary course of business.

(3) Interest rate risk

Fluctuations in market interest rates may negatively affect the Group's financial condition and results of operations. The Group are exposed to floating interest rate risk on cash deposit and floating rate borrowings. We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax profit or loss. The model includes all interest-sensitive assets and liabilities. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax profit or loss. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of a simulated change in interest rates. The results of the simulations based on the Group's financial position as of September 30, 2022 indicate that a gradual 1% (100 basis points) increase/decrease in interest rates over a 12-month period would have increased/decreased the Group's profit before tax by approximately HK\$309.6 million (US\$39.6 million), depending largely on the extent and timing of possible changes in floating rates.

Recent Accounting Pronouncements

In June 2016, the 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 is effective on January 1, 2020. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which the group is required to recognize an allowance based on its estimate of expected credit loss. In November 2018, FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, further clarified the scope of the guidance in the amendments in ASU 2016-13. In May 2019, FASB issued ASU No. 2019-05, Financial instrument – Credit Losses (Topic 326), Targeted Transition Relief, which provides an irrevocably fair value option to elect for eligible instruments. In November 2019, FASB issued ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which clarified and improved various aspects of ASU 2016-13. In March 2020, FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, which improves and clarifies various financial instruments topics, including the current expected credit losses standard. As of January 1, 2020, the Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no impact on the Group’s retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP.

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 is effective for the Group’s fiscal year beginning January 1, 2020, with early adoption permitted. The update eliminates the requirement to disclose: (a) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (b) an entity’s policy for timing of transfers between levels; (c) and an entity’s valuation processes for Level 3 fair value measurements. The Group adopted ASU 2018-13 on January 1, 2020, and the adoption had no material impact on the Group’s consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income taxes (Topic 740) – Simplifying the accounting for income taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Group adopted the ASU on January 1, 2021, which did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting if certain criteria are met. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance is effective immediately and the amendments may be applied prospectively through December 31, 2022. The adoption did not have a material accounting impact on the Group’s consolidated financial position or results of operations.

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, financial assets and financial liabilities measured at fair value as of December 31, 2021 and September 30, 2022. 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, 2021			
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	1,169,741	–	–	1,169,741
Other financial assets ⁽¹⁾	–	598	–	598
Total financial assets, measured at fair value	1,169,741	598	–	1,170,339

	Financial Assets and Liabilities At Fair Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
	<i>(HK\$ in thousands)</i>			
Short-term investments	13,373	–	–	13,373
Total financial assets, measured at fair value	13,373	–	–	13,373
Other financial liabilities ⁽¹⁾	2,125	8,989	–	11,114
Total financial liabilities, measured at fair value	2,125	8,989	–	11,114

- (1) The Group enters into currency futures contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. The currency futures contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. As of December 31, 2021 and September 30, 2022, the currency futures are included in other current assets or other current liabilities.

The Group held trading liabilities and classified them as Level 1 of the fair value hierarchy since the fair value are determined based on the quoted market price, as of September 30, 2022, the trading liabilities are included in other current liabilities.

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, 2021 and 2022, there were no transfers between levels for financial assets and liabilities, at fair value.

Financial Assets and Liabilities Not Measured at Fair Value

The following financial instruments are not measured at fair value in the Group's consolidated balance sheets as of December 31, 2021 and September 30, 2022, but require disclosure of their fair values: cash and cash equivalents, cash held on behalf of clients, term deposit, restricted cash, securities purchased under resale agreements, loans and advances, receivables, other financial assets, amounts due to related parties, payables, borrowings, securities sold under agreements to repurchase and other financial liabilities. The estimated fair value of such instruments at December 31, 2021 and September 30, 2022 approximates their carrying value due to their generally short maturities. If measured at fair value in the financial statements, these financial instruments would be classified based on the lowest level of any input that is significant to the fair value measurement.

Netting of Financial Assets and Financial Liabilities

The Group's policy is to net the receivables from and payables to clearing organizations that meet the offsetting requirements prescribed in ASC Topic 210-20. The following tables represents the amounts of financial instruments that are offset in the consolidated balance sheets as of December 31, 2021 and September 30, 2022.

5. LEASE

The following table presents balances reported in the consolidated balance sheets related to the Group's leases:

	<u>As of</u> <u>December 31,</u>	<u>As of</u> <u>September 30,</u>
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
Operating lease right-of-use assets	243,859	200,030
Operating lease liabilities	260,579	213,276
	<u>260,579</u>	<u>213,276</u>

The following table presents operating lease expense reported in the consolidated statements of comprehensive income related to the Group's leases:

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
Operating lease expense	77,400	87,503
	<u>77,400</u>	<u>87,503</u>

The following table reconciles the undiscounted cash flows of the Group's leases as of December 31, 2021 and September 30, 2022 to the present value of its operating lease payments:

	<u>As of</u> <u>December 31,</u>	<u>As of</u> <u>September 30,</u>
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
2022	102,767	29,078
2023	96,326	101,988
2024	38,306	47,020
2025	30,688	37,146
2026 and thereafter	7,455	15,908
	<u>275,542</u>	<u>231,140</u>
Total undiscounted operating lease payments	275,542	231,140
Less: imputed interest	(14,963)	(17,864)
	<u>260,579</u>	<u>213,276</u>
Present value of operating lease liabilities	260,579	213,276

6. LOANS AND ADVANCES

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Margin loans	29,097,216	27,788,266
IPO loans	34,348	22,381
Other advances	468,000	1,972,873
Subtotal	29,599,564	29,783,520
Less: Allowance for credit losses	(12,258)	(25,913)
Total	29,587,306	29,757,607

7. OTHER ASSETS

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Current:		
Staff advances	26,527	16,255
Deposit	23,032	39,601
Others	32,035	54,297
Total	81,594	110,153
Non-current:		
Refundable deposit	337,513	691,509
Property and equipment, net (<i>Note a</i>)	175,757	149,448
Intangible assets, net (<i>Note b</i>)	17,218	51,121
Deferred tax assets (<i>Note 23</i>)	38,317	51,062
Total	568,805	943,140

(a) Property and equipment, net, consisted of the following:

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Gross carrying amount		
Computers and equipment	109,989	103,709
Furniture and fixtures	64,507	68,890
Office equipment	64,822	64,168
Office building	28,239	33,233
Vehicle	635	640
Total of gross carrying amount	268,192	270,640

	As of December 31, <u>2021</u>	As of September 30, <u>2022</u>
	<i>(HK\$ in thousands)</i>	
Less: accumulated depreciation		
Computers and equipment	(29,852)	(41,898)
Furniture and fixtures	(23,828)	(33,502)
Office equipment	(35,860)	(42,218)
Office building	(2,291)	(2,966)
Vehicle	(604)	(608)
	<u>(92,435)</u>	<u>(121,192)</u>
Total of accumulated depreciation		
Property and equipment, net	<u>175,757</u>	<u>149,448</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 income for the nine months ended September 30, 2021 and 2022 were HK\$23,239 thousand and HK\$36,926 thousand, respectively.

(b) **Intangible assets, net, consisted of the following:**

	As of December 31, <u>2021</u>	As of September 30, <u>2022</u>
	<i>(HK\$ in thousands)</i>	
Gross carrying amount		
Computer software	15,596	23,247
License	4,261	27,602
Others	3,638	9,975
	<u>23,495</u>	<u>60,824</u>
Total of gross carrying amount		
Less: accumulated amortization		
Computer software	(5,172)	(7,263)
License	–	(793)
Others	(1,105)	(1,647)
	<u>(6,277)</u>	<u>(9,703)</u>
Total of accumulated amortization		
Intangible assets, net	<u>17,218</u>	<u>51,121</u>

Amortization expenses on intangible assets which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2021 and 2022 were HK\$1,491 thousand and HK\$4,120 thousand, respectively.

8. LONG-TERM INVESTMENTS

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

	<u>As of</u> <u>December 31,</u>	<u>As of</u> <u>September 30,</u>
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
Equity method investments ⁽¹⁾	7,798	229,970
Equity investments without readily determinable fair values ⁽²⁾	<u>15,596</u>	<u>15,754</u>
Total	<u><u>23,394</u></u>	<u><u>245,724</u></u>

(1) Equity method investments

As of December 31, 2021 and September 30, 2022, the Group's investments accounted for under the equity method totaled HK\$7,798 thousand and HK\$229,970 thousand, respectively. The Group applies the equity method of accounting to account for its equity method investments over which it has significant influence but does not own a majority equity interest or otherwise control.

In January 2019, the Group invested in a private company by acquiring 20% ordinary equity interest with a total consideration of HK\$6,709 thousand. The Group accounts for this as an equity method investment. For the years ended December 31, 2019 and 2020, loss on investment recognized were HK\$543 thousand and HK\$278 thousand, respectively. Based on the Group's assessment on the recoverable amounts of the equity method investment, as of December 31, 2021 and September 30, 2022, the impairment provision on the equity method investment was HK\$5,888 thousand and HK\$5,888 thousand, respectively.

In December 2021, the Group invested in a private equity fund by acquiring approximately 10% ordinary equity interest with a total consideration of HK\$7,798 thousand. The Group accounts for this as an equity method investment. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of December 31, 2021 and September 30, 2022, no impairment provision on the equity method investment was recognized.

In June 2022, the Group invested in a private equity fund by acquiring approximately 16% ordinary equity interest with a total consideration of HK\$235,434 thousand. The Group accounts for this as an equity method investment. For the period ended September 30, 2022, loss on investment recognized were HK\$13,324 thousand. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of September 30, 2022, no impairment provision on the equity method investment was recognized.

(2) Equity investments without readily determinable fair values

As of December 31, 2021 and September 30, 2022, the Group's equity investments without readily determinable fair values totaled HK\$15,596 thousand and HK\$15,754 thousand, respectively. In December 2021, the Group invested in a private equity fund by acquiring 2.75 % ordinary equity interest with a total consideration of HK\$15,596 thousand. Equity securities without determinable fair values of the Group represent investments in privately held companies with no readily determinable fair value. The Group elected measurement alternative and recorded these investments at cost, less impairment, adjusted for subsequent observable price changes. As of December 31, 2021 and September 30, 2022, no impairment provision on the equity investments without readily determinable fair values were recognized.

9. BORROWINGS

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Borrowings from banks ⁽¹⁾	6,357,405	6,547,293

The Group obtained borrowings mainly to support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of 1.15% and 3.43% as of December 31, 2021 and September 30, 2022, respectively.

- (1) The Group has unused borrowing facilities of HK\$14,695,095 thousand and HK\$15,748,479 thousand from banks as of December 31, 2021 and September 30, 2022, respectively, which are uncommitted. These bank borrowings were pledged by margin clients' shares as the primary source of credit risk mitigation of the lenders, and bore floating interest rates based on various benchmarks including Hong Kong Prime Rate, Hong Kong Interbank Offered Rate (IBOR), CNH HIBOR, etc.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Current:		
Accrued payroll and welfare expenses	531,409	692,817
Tax payables	494,744	423,669
Payables to corporate clients in relation to ESOP management services ⁽¹⁾	870,283	265,647
Accrued advertising and promotion fee	152,305	120,409
Temporary payables in relation to fund distribution services	48,240	68,003
Stamp duty, trading levy and trading fee payables	19,447	31,625
Accrued professional fee	22,066	16,540
Accrued market information and data fee	12,832	6,457
Refund from depositary bank – current	2,773	2,791
Contract liabilities – current	3,058	1,323
Others	19,056	54,541
Total	<u>2,176,213</u>	<u>1,683,822</u>
Non-current:		
Contract liabilities – non-current	5,910	4,955
Refund from depositary bank – non-current	4,389	2,325
Deferred tax liabilities (<i>Note 23</i>)	636	13,446
Total	<u>10,935</u>	<u>20,726</u>

- (1) Payables to corporate clients in relation to ESOP management services mainly consist of exercise payment of share options and related withholding tax. These payables are usually expected to be settled within one year.

11. ORDINARY SHARES AND TREASURY STOCK**Ordinary shares**

The Company's original Memorandum and articles of association authorized 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 authorized 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. Immediately prior to the completion of the initial public offering on March 8, 2019, the Company was approved by the board of directors of the Company to adopt a dual class share structure, consisting of 48,700,000,000 Class A ordinary shares with a par value of US\$0.00001 each, 800,000,000 Class B ordinary shares with a par value of US\$0.00001 each and 500,000,000 shares undesignated with a par value of US\$0.00001 each. In respect of all matters subject to shareholders' vote, each holder of Class A ordinary share is entitled to one and each holder of Class B ordinary share is entitled to twenty votes.

In December, 2020, the Company entered into a securities purchase agreement with a leading global investment firm for a private placement of Pre-Funded warrants (the "Offering" or the "Pre-Funded Warrants"). The net proceeds to the Company from the Offering were approximately US\$262.5 million (HK\$2,035 million). In the Offering, the Company issued Pre-Funded warrants to purchase 53,600,000 shares of Class A ordinary shares that were immediately exercisable and had a termination date in June 2022, at a price of US\$4.89751 less a nominal exercise price of US\$0.00001 per Pre-Funded warrant. The Pre-Funded Warrants were equity classified because they were immediately exercisable, did not embody an obligation for the Company to repurchase its shares, and permitted the holders to receive a fixed number of common shares upon exercise. In addition, such warrants did not provide any guarantee of value or return. On June 11, 2021, the investment firm exercised these Pre-Funded warrants which increased 53,599,890 shares of Class A ordinary shares, and 110 shares were retrieved as the consideration of share purchase.

On April 24, 2021, the Company completed a public offering, issued 87,400,000 Class A ordinary shares for a total consideration of US\$1,398 million (HK\$10,856.5 million) after deducting the underwriting discounts and commissions and offering expenses.

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. On August 16, 2022, 64,000,000 shares of Class B ordinary shares were converted to the same number of Class A ordinary shares.

During the nine months ended September 30, 2021 and 2022, 4,192,000 and 1,475,848 shares of Class A Ordinary Shares were issued upon exercise of outstanding stock options, nil and 134,700 shares of Class A Ordinary Shares were issued upon vest of outstanding restricted share units under the Group's share-based incentive plans (Note 13).

Treasury stock

On November 3, 2021, the Group's Board of Directors approved a share repurchase program to repurchase up to US\$300.0 million worth of its own American depository shares ("ADSs"), representing its Class A ordinary shares, until December 31, 2022.

On March 10, 2022, the Group's Board of Directors approved another share repurchase program to repurchase up to US\$500.0 million worth of the ADSs, representing its Class A ordinary shares, until December 31, 2023.

As of December 31, 2021 and September 30, 2022, the Group had repurchased an aggregate of 29,462,760 and 110,839,528 Class A ordinary shares under these share repurchase programs in the open market, at an average price of US\$41.04 and US\$36.74 per ADS, or US\$5.13 and US\$4.59 per share for a total consideration of US\$151.2 million (HK\$1,178.8 million) and US\$508.7 million (HK\$3,975.2 million), respectively.

12. RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the Group's PRC subsidiaries and VIEs are required to make appropriation to certain reserve funds, namely general reserve fund, enterprise expansion fund, and staff bonus and welfare fund, all of which are appropriated from the subsidiaries' annual after-tax profits as reported under PRC GAAP. The appropriation must be at least 10% of the annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of the subsidiaries' registered capital.

The domestic companies are also required to provide discretionary surplus fund, at the discretion of the Board of Directors, from its annual after-tax profits as reported under PRC accounting standards. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

Furthermore, cash transfers from the Group's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency at the time of requesting such conversion may temporarily delay the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy their foreign currency denominated obligations.

As a result of the PRC laws and regulations and the requirement that distributions by the PRC entity can only be paid out of distributable profits computed in accordance with PRC accounting standards, the PRC entity is restricted from transferring a portion of its net assets to the Group. Amounts restricted include paid-in capital and statutory reserves of the Group's PRC subsidiaries and VIEs. As of December 31, 2021 and September 30, 2022, the restricted net assets of the Group's relevant PRC entities amounted to HK\$304,377 thousand and HK\$304,377 thousand, respectively.

13. SHARE-BASED COMPENSATION

Share-based compensation was recognized in operating expenses for the nine months ended September 30, 2021 and 2022 as follows:

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Research and development expenses	49,290	106,395
General and administrative expenses	8,913	30,694
Selling and marketing expenses	6,092	11,616
	<u>64,295</u>	<u>148,705</u>
Total share-based compensation expenses	<u>64,295</u>	<u>148,705</u>

Share Options

In October 2014, the Board of Directors of the Company 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.

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan, pursuant to which the maximum number of shares of the Company available for issuance 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; provided, however, that (i) the 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, 2019 immediately preceding the most recent increase.

On December 30, 2019, the Company modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to US\$0.60. The incremental compensation expenses of HK\$3,008 thousand (US\$386 thousand) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification.

For the nine months ended September 30, 2021 and 2022, the Group granted 1,080,000 and nil stock options to employees pursuant to the 2014 Share Incentive Plan and 2019 Share Incentive Plan.

A summary of the stock option activity under the 2014 and 2019 Share Incentive Plan for the nine months ended September 30, 2021 and 2022 is included in the table below.

	<u>Options granted share number</u>	<u>Weighted average exercise price per option</u> (US\$)
Outstanding at December 31, 2021	13,341,466	0.5703
Exercised	(1,475,848)	0.5996
Forfeited	(347,136)	0.6368
Outstanding at September 30, 2022	11,518,482	0.5645
Outstanding at December 31, 2020	19,042,336	0.5628
Exercised	(4,192,000)	0.3619
Granted	1,080,000	0.0444
Forfeited	(743,998)	0.6548
Outstanding at September 30, 2021	15,186,338	0.5769

The following table summarizes information regarding the share options outstanding as of December 31, 2021 and September 30, 2022, and exercise prices and aggregate intrinsic value have been adjusted according to the modification of exercise price in December 2019:

	<u>As of December 31, 2021</u>			
	<u>Options number</u>	<u>Weighted- average exercise price per option</u>	<u>Weighted- average remaining exercise contractual life (years)</u>	<u>Aggregate intrinsic value</u>
		(US\$)		(US\$ in thousands)
Options				
Outstanding	13,341,466	0.5703	3.42	165,157
Exercisable	2,825,014	0.5729	2.85	34,964
Expected to vest	10,516,452	0.5696	3.57	130,193

As of September 30, 2022				
	Options number	Weighted- average exercise price per option (US\$)	Weighted- average remaining exercise contractual life (years)	Aggregate intrinsic value (US\$ in thousands)
Options				
Outstanding	11,518,482	0.5645	2.76	51,515
Exercisable	1,653,781	0.4808	2.51	7,535
Expected to vest	9,864,701	0.5786	2.80	43,980

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the underlying stock at December 31, 2021 and September 30, 2022.

The weighted average grant date fair value of options granted for the nine months ended September 30, 2021 and 2022 were US\$18.9219 and nil per option, respectively.

Options exercised for the nine months ended September 30, 2021 and 2022 were 4,192,000 and 1,475,848, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2021 and 2022 was approximately HK\$543,551 thousand (US\$69,986 thousand) and HK\$49,305 thousand (US\$6,295 thousand).

The fair value of each option granted for the nine months ended September 30, 2021 and 2022 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	Nine months ended September 30,	
	2021	2022
Risk-free interest rate	0.09%-0.89%	NA
Expected term (in years)	5.00	NA
Expected dividend yield	0%	NA
Expected volatility	40%	NA
Expected forfeiture rate (post-vesting)	15%	NA

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 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, 2021 and September 30, 2022, there was HK\$201,948 thousand (US\$25,897 thousand) and HK\$160,054 thousand (US\$20,389 thousand) of unrecognized compensation expenses related to the options, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 3.96 and 3.31 years, respectively, and may be adjusted for future changes in estimated forfeitures.

Restricted Share Units Plan

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan. The fair value of restricted share units granted with service conditions is estimated based on the fair market value of the underlying ordinary shares of the Company on the date of grant.

The following table summarizes activities of the Company's restricted share units granted to employees under the plan for the nine months ended September 30, 2021 and 2022:

	Shares awarded number	Weighted-average grant date fair value per share
		(US\$)
Outstanding at December 31, 2021	16,961,864	5.6793
Vested	(134,600)	20.1363
Granted	2,827,320	5.4125
Forfeited	(1,355,240)	5.3584
Outstanding at September 30, 2022	18,299,344	5.5555
Outstanding at December 31, 2020	6,067,400	4.6827
Granted	837,072	20.1363
Forfeited	(231,680)	4.7350
Outstanding at September 30, 2021	6,672,792	6.6195

For the nine months ended September 30, 2021 and 2022, the Group granted 837,072 and 2,827,320 restricted share units to employees pursuant to the 2019 Share Incentive Plan, respectively.

As of December 31, 2021 and September 30, 2022, there was HK\$694,749 thousand (US\$89,092 thousand) and HK\$670,477 thousand (US\$85,412 thousand) of unrecognized compensation expenses related to the restricted share units, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 4.64, and 3.26 years and may be adjusted for future changes in estimated forfeitures.

14. NET INCOME PER SHARE

For the year ended December 31, 2019, 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. For the year ended December 31, 2020, the Company issued pre-funded warrants to purchase 53,600,000 shares of Class A ordinary shares with an exercise price of US\$0.00001 that are included in our computation of basic earnings per share. For the year ended December 31, 2021, the investment firm exercised these pre-funded warrants which increased 53,599,890 shares of Class A ordinary shares, and 110 shares were retrieved as the consideration of share purchase.

Basic net income per share and diluted net income per share have been calculated in accordance with ASC 260 on computation of earnings per share for the nine months ended September 30, 2021 and 2022 as follows:

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands, except for share and per share data)</i>	
Basic net income per share calculation:		
Numerator:		
Net income attributable to ordinary shareholders of the Company	2,311,401	1,968,168
Denominator:		
Weighted average number of ordinary shares outstanding – basic	1,192,527,761	1,147,484,439
Net income per share attributable to ordinary shareholders of the Company – basic	<u>1.94</u>	<u>1.72</u>
Diluted net income per share calculation:		
Numerator:		
Net income attributable to ordinary Shareholders of the Company	2,311,401	1,968,168
Denominator:		
Weighted average number of ordinary shares outstanding – basic	1,192,527,761	1,147,484,439
Dilutive effect of share options and restricted share units	19,664,213	10,917,137
Weighted average number of ordinary shares outstanding – diluted	1,212,191,974	1,158,401,576
Net income per share attributable to ordinary shareholders of the Company – diluted	<u>1.91</u>	<u>1.70</u>

For the nine months ended September 30, 2021 and 2022, options to purchase ordinary shares and restricted share units that were anti-dilutive and excluded from the calculation of diluted net income per share were nil and 4,975,271 shares on a weighted average basis, respectively.

15. COLLATERALIZED TRANSACTIONS

The Group engages in margin financing transactions with its clients. Margin loans generated from margin lending activity are collateralized by cash and/or client-owned securities held by the Group. The Group monitors the required margin and collateral level on a daily basis in compliance with regulatory and internal guidelines and controls its risk exposure through risk management system. Under applicable agreements, clients are required to deposit additional collateral or reduce holding positions, when necessary to avoid forced liquidation of their positions.

Pursuant to the authorization obtained from margin clients, the Group further repledges the collaterals to commercial banks or other financial institutions to obtain the funding for the margin or other businesses.

The following table summarizes the amounts of margin loans and clients' collaterals received and repledged by the Group as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Margin loan extended to margin clients (net)	29,084,958	27,762,353
Securities purchased under agreements to resell transactions	106,203	22,349
Collateral received from margin clients	119,745,500	105,695,849
Collateral received from brokers	144,156	29,207
Collateral repledged to commercial banks and other financial institutions	20,953,603	13,099,509
	<u>20,953,603</u>	<u>13,099,509</u>

The Group also engaged in securities borrowing and lending transactions which require it to deposit cash collateral with the securities lenders and receive the cash collateral from the borrowers. The cash collateral is generally in excess of the market value of the securities borrowed and lent. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

The following table summarizes the amounts of market value of securities borrowed and lent and cash collateral received and deposited as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Securities borrowed and lent ⁽¹⁾	8,436,638	13,878,468
Cash collateral deposited with lenders	3,120,123	1,144,340
Cash collateral received from borrowers	9,737,786	14,676,066
	<u>9,737,786</u>	<u>14,676,066</u>

(1) Borrowed securities includes securities borrowed from margin clients under authorization, in this case no cash collateral is required.

16. BROKERAGE COMMISSION AND HANDLING CHARGE INCOME

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Brokerage commission income	2,454,219	2,388,788
Handling charge income	601,872	570,262
Total	<u>3,056,091</u>	<u>2,959,050</u>

17. INTEREST INCOME

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Interest income from:		
Margin financing	1,254,098	1,193,838
Bank deposits	143,669	496,066
Securities lending	307,435	292,095
Bridge loan	–	91,503
IPO financing	195,406	1,870
Other financing	–	1,112
Total	1,900,608	2,076,484

18. OTHER INCOME

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Currency exchange service income	154,433	111,277
Funds distribution service income	48,771	61,661
Enterprise public relations service charge income	76,809	33,979
Market information and data income	34,148	31,989
Underwriting fee income	68,216	19,932
Trust service income	2,918	5,448
IPO subscription service charge income	163,331	5,318
Others	7,186	28,170
Total	555,812	297,774

19. BROKERAGE COMMISSION AND HANDLING CHARGE EXPENSES

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Commission, handling and settlement expenses	437,923	264,950
IPO subscription service charge expenses	46,539	845
Total	484,462	265,795

20. INTEREST EXPENSES

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Interest expenses for margin financing		
Due to banks	97,358	48,369
Due to other licensed financial institutions	49,131	9,233
Interest expenses for securities borrowed		
Due to clients	110,186	42,325
Due to brokers	15,207	10,598
Interest expenses for IPO financing		
Due to banks	49,404	–
Total	321,286	110,525

21. PROCESSING AND SERVICING COSTS

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Cloud service fee	75,575	168,555
Market information and data fee	50,257	56,229
Data transmission fee	42,638	28,393
System cost	9,709	19,715
SMS service fee	905	823
Others	4,379	3,927
Total	183,463	277,642

22. NON-INTEREST COST AND EXPENSES BY NATURE

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Employee compensation and benefits	785,177	1,497,752
Marketing and branding	908,983	459,784
Processing and servicing costs (<i>Note 21</i>)	183,463	277,642
Brokerage commission and handling charge expenses (<i>Note 19</i>)	484,462	265,795
Rental and other related expenses	77,400	87,503
Professional services	38,420	57,743
Depreciation and amortization	24,730	41,046
Listing expenses	–	2,135
Others	66,230	85,144
Total	2,568,865	2,774,544

23. TAXATION**Income Tax****(1) Cayman Islands**

The Group 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) The United States (“US”)

The Company’s subsidiaries incorporated in the United States are subject to statutory income tax at a rate up to 35% for taxable income earned in the United States. On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted, significantly revising the U.S corporate income tax law. Changes include a reduction in the federal corporate tax, changes to operating loss carry-forwards and carrybacks, and a repeal of the corporate alternative minimum tax. This legislation resulted in a reduction of the U.S. federal corporate income tax rates from a maximum of 35% to 21%, to which the subsidiaries incorporated in the United States are subject.

(3) Hong Kong

Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(4) Singapore

The Company’s subsidiaries incorporated in Singapore are subject to an income tax rate of 17% for taxable income earned in Singapore. Singapore does not impose a withholding tax on dividends for resident companies. For the nine months ended September 30, 2021 and 2022, we did not incur any income tax as there was no estimated assessable profit that was subject to Singapore income tax.

(5) China

The Company’s subsidiaries, consolidated VIEs and subsidiary of the VIEs established in the PRC are subject to statutory income tax at a rate of 25%, unless preferential tax rates were applicable.

The Enterprise Income Tax (“EIT”) Law and its implementing rules permit High and New Technology Enterprise (“HNTE”) to enjoy a reduced 15% EIT rate. Futu Network Technology (Shenzhen) Co., Ltd., one of the Company’s subsidiary, and Shenzhen Futu, the Group’s consolidated VIE, obtained the qualification certificate of HNTE under the EIT Law, subject to the tax rate of 15% with a valid period of three years starting from 2019 and 2020, respectively.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”).

Under the 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 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%.

Dividends paid by the Group's wholly foreign-owned subsidiaries in China to non-PRC-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 relevant income is not effectively connected with the establishment or place of business, will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the 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 Income and receives approval from the relevant tax authority. The undistributed earnings that are subject to dividend tax are expected to be indefinitely reinvested for the foreseeable future. The Group did not record any withholding tax for its PRC earnings and considered determination of such withholding tax amount not practicable.

Composition of income tax expenses

The following table sets forth current and deferred portion of income tax expenses:

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Current income tax expenses	309,534	259,279
Deferred income tax benefit	(8,266)	(11,707)
Income tax expenses	<u>301,268</u>	<u>247,572</u>

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:

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Income before income tax	2,612,670	2,229,064
Tax expenses at Hong Kong profit tax rate of 16.5%	431,091	367,631
Changes of valuation allowance	91,776	(31,771)
Tax effect of permanence differences	9,908	36,881
Effect of income tax jurisdictions other than Hong Kong	(14,548)	27,665
Super deduction of research and development expenses	(37,407)	(61,940)
Final settlement differences	-	(3,614)
Income not subject to tax ⁽¹⁾	(179,552)	(87,280)
Income tax expenses	<u>301,268</u>	<u>247,572</u>

- (1) This amount mainly represents tax exemption relating to the offshore income of Futu Securities. The brokerage commission income derived from executing the clients' orders of US listed securities was treated as offshore-sourced and non-taxable on the basis that these transactions were executed outside Hong Kong.

Deferred Tax Assets and Liabilities

Deferred income tax expenses reflect 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 and liabilities are as follows:

	<u>As of</u> <u>December 31,</u>	<u>As of</u> <u>September 30,</u>
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
Deferred tax assets		
Net operating loss carryforwards	158,826	124,678
Accrued expenses and others	50,408	65,011
Less: valuation allowance	<u>(169,422)</u>	<u>(137,651)</u>
Total deferred tax assets	39,812	52,038
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,495)</u>	<u>(976)</u>
Net deferred tax assets	<u>38,317</u>	<u>51,062</u>
Total deferred tax liabilities	2,131	14,422
Set-off of deferred tax assets pursuant to set-off provisions . .	<u>(1,495)</u>	<u>(976)</u>
Net deferred tax liabilities	<u>636</u>	<u>13,446</u>

Movement of Valuation Allowance

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2022</u>
	<i>(HK\$ in thousands)</i>	
Balance at beginning of the period	67,768	169,422
Additions	92,445	89,878
Reversals	<u>(669)</u>	<u>(121,649)</u>
Balance at end of the period	<u>159,544</u>	<u>137,651</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%, 27.98%, 27.87%, 16.5%, 17% or the preferential tax rate of 15%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2021 and September 30, 2022, the Group had net operating loss carryforwards of approximately HK\$764,251 thousand and HK\$711,365 thousand, respectively, which arose from the subsidiaries, VIEs and the VIEs' subsidiaries established in Hong Kong, the U.S, Singapore and PRC. As of December 31, 2021 and September 30, 2022, of the net operating loss carryforwards, HK\$761,417 thousand and HK\$711,365 thousand was provided for valuation allowance against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets of accrued expenses and others will not be realized. While the remaining HK\$2,834 thousand and nil is expected to be utilized prior to expiration considering future taxable income for respective entities.

Uncertain Tax Position

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. The Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

24. 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 RMB76,379 thousand (HK\$91,713 thousand) and RMB122,913 thousand (HK\$145,474 thousand) for the nine months ended September 30, 2021 and 2022, 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 income were HK\$1,585 thousand and HK\$1,900 thousand of plan contributions for the nine months ended September 30, 2021 and 2022, respectively.

For the employees in Singapore, the Group makes monthly contributions to the mandatory social security savings scheme which serves to meet retirement, housing and healthcare needs. The Employment Act of Singapore requires that the Group makes contributions to the scheme based on certain percentages of the employees' salaries, up to a maximum amount specified by the act. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were SGD207 thousand (HK\$1,205 thousand) and SGD406 thousand (HK\$2,310 thousand) for the nine months ended September 30, 2021 and 2022, respectively.

For the employees in Australia, the Group makes contributions to the mandatory social security savings scheme which serves to meet retirement needs at least every three months. The Employment Act of Australia requires that the Group makes contributions to the scheme based on certain percentages of the employees' before tax income. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were nil and AUD\$133 thousand (HK\$739 thousand) for the nine months ended September 30, 2021 and 2022, respectively.

25. REGULATORY REQUIREMENTS

The Company's broker-dealer and insurance-broker subsidiaries, Futu Securities, Moomoo Financial Inc., Futu Clearing Inc., Moomoo Financial Singapore Pte. Ltd., Futu Insurance Brokers (Hong Kong) Limited and Futu Securities (Australia) Ltd. are subject to capital requirements determined by its respective regulators.

Futu Securities, the Company's subsidiary located in Hong Kong, was 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 and liquid capital.

Moomoo Financial Inc. and Futu Clearing Inc., the Company's subsidiaries located in the United States, were subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, which requires the maintenance of minimum net capital.

Moomoo Financial Singapore Pte. Ltd., the Company's subsidiary located in Singapore, was subject to the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations, which requires the maintenance of financial resource over its total risk requirement.

Futu Insurance Brokers (Hong Kong) Limited, was subject to Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules, which requires minimum net assets.

Futu Securities (Australia) Ltd., the Company's subsidiary located in Australia, was subject to Regulatory Guide 166 Licensing: Financial requirements, which requires the maintenance of surplus liquid funds when licensees hold client money or property.

The tables below summaries the net capital, the requirement and the excess capital for the Group's broker-dealer subsidiaries as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021		
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	6,666,092	1,631,080	5,035,012
Futu Clearing Inc.	3,308,395	97,565	3,210,830
Moomoo Financial Inc.	149,871	22,560	127,311
Moomoo Financial Singapore Pte. Ltd.	345,424	156,646	188,778
Futu Insurance Brokers (Hong Kong) Limited.	1,718	500	1,218
	As of September 30, 2022		
	Net Capital/ Eligible Equity	Requirement	Excess
	<i>(HK\$ in thousands)</i>		
Futu Securities	5,044,921	1,572,427	3,472,494
Futu Clearing Inc.	4,057,214	321,482	3,735,732
Moomoo Financial Inc.	71,076	22,245	48,831
Moomoo Financial Singapore Pte. Ltd.	685,144	170,813	514,331
Futu Insurance Brokers (Hong Kong) Limited.	1,399	500	899
Futu Securities (Australia) Ltd.	60,951	1,214	59,737

Regulatory capital requirements could restrict the operating subsidiaries from expanding their business and declaring dividends if their net capital does not meet regulatory requirements.

As of December 31, 2021 and September 30, 2022, all of the regulated operating subsidiaries were in compliance with their respective regulatory capital requirements.

26. COMMITMENTS AND CONTINGENCIES

Commitments

The Group's commitments primarily related to capital contribution obligation for certain investment funds. Total commitments contracted but not yet reflected in the consolidated financial statements amounted to US\$104 million and US\$74 million as of December 31, 2021 and September 30, 2022, respectively.

Contingencies

The financial services industry is highly regulated. From time to time, the licensed companies in the financial industry may be required to assist in and/or are subject to inquiries and/or examination by the regulatory authorities of the jurisdiction in where they operate. As of the date of approval of the consolidated financial statements, the Group reviews its regulatory inquiries and other legal proceedings on an ongoing basis and evaluates whether potential regulatory fines are probable, estimable and material and for updating its contingency reserves and disclosures accordingly. As of December 31, 2021 and September 30, 2022, the Group did not make any accrual for the aforementioned loss contingency.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth major related parties of the Group and their relationships with the Group:

Name of Entity or individual	Relationship with the Group
Mr. Leaf Hua Li and his spouse	Principal shareholder and member of his immediate families
Tencent Holdings Limited and its subsidiaries (“Tencent Group”)	Principal shareholder
Individual directors and officers and their spouses	Directors or officers of the Group and members of their immediate families

(a) Cash and cash equivalent

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Cash and cash equivalent	372	346

The balance represents the cash deposited by the Group in various payment channels of Tencent Group for funding marketing campaigns, of which could be withdrawn on demand.

(b) Amounts Due to Related Parties

	As of December 31, 2021	As of September 30, 2022
	<i>(HK\$ in thousands)</i>	
Payables to Tencent Group in relation to ESOP management services	1,307	313
Payables in relation to cloud equipment and services from Tencent Group	85,887	53,080
SMS channel services from Tencent Group	265	209
Total	87,459	53,602

(c) Transactions with Related Parties

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Cloud service fee	75,575	132,952
Softwares purchased	1,524	1,468
SMS channel service fee	905	823
ESOP management service income	475	510
Other services	108	309
Equipment purchased	6,529	–
Total	85,116	136,062

The Group utilizes the cloud services, equipment and software 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. Tencent Group provides advertising services to the Group via Tencent Group's social media. The Group also earns revenue from Tencent Group by providing ESOP management service.

(d) Trade related transactions with Related Parties

Included in payables to clients in the consolidated balance sheets as of December 31, 2021 and September 30, 2022, were payables to directors and officers of HK\$44,480 thousand and HK\$29,322 thousand, respectively. Revenue earned by providing brokerage services and margin loans to directors and officers and their spouses amounts to HK\$1,255 thousand and HK\$528 thousand for the nine months ended September 30, 2021 and 2022, respectively.

28. DIVIDENDS

No dividend was declared by the Group during the nine months ended September 30, 2021 and 2022.

29. SUBSEQUENT EVENTS

In November, 2022, the Group entered into an acquisition agreement with the aim of acquiring 85% interest of a securities company at a maximum consideration of approximately HK\$18,016 thousand.

30. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited interim condensed financial information is prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The effects of material differences prepared under U.S. GAAP and IFRS are as follows:

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Reconciliation of net income attributable to the Company in the consolidated statements of comprehensive income		
Net income attributable to the Company in the consolidated statements of comprehensive income as reported under		
U.S. GAAP	2,311,401	1,968,168
IFRS adjustments:		
Issuance costs (<i>Note (a)</i>)	–	(5,195)

	Nine months ended September 30,	
	2021	2022
	<i>(HK\$ in thousands)</i>	
Operating leases <i>(Note (b))</i>	(1,664)	(196)
Share-based compensation <i>(Note (c))</i>	(49,247)	(106,549)
Expected credit loss <i>(Note (d))</i>	(1,313)	683
Net income attributable to the Company in the consolidated statements of comprehensive income as reported under IFRS	<u>2,259,177</u>	<u>1,856,911</u>
	As of	As of
	December 31,	September 30,
	2021	2022
	<i>(HK\$ in thousands)</i>	
Reconciliation of total shareholders' equity in the consolidated balance sheets		
Total shareholders' equity as reported under U.S. GAAP	20,985,559	20,186,243
IFRS adjustments:		
Issuance costs <i>(Note (a))</i>	(14,336)	(19,531)
Operating leases <i>(Note (b))</i>	(8,454)	(7,869)
Expected credit loss <i>(Note (d))</i>	(12,342)	(11,624)
Total shareholders' equity as reported under IFRS	<u>20,950,427</u>	<u>20,147,219</u>

(a) Issuance costs

Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criterion for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of the Group in the capital market, and were allocated proportionately between the existing and new shares. As a result, the Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

(b) Operating leases

Under U.S. GAAP, for operating leases, the amortization of right-of-use assets and the interest expense element of lease liabilities are recorded together as operating lease expenses, which results in a straight-line recognition effect in the consolidated statements of operations and comprehensive loss.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured using the effective interest rate method, which generally yields a "front-loaded" expense with more expense recognized in earlier years of the lease.

(c) Share-based compensation

The Group granted options and restricted share units with service condition only to employees and modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to from US\$1.20 to US\$0.60 on December 30, 2019.

Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method. While under IFRS, the graded vesting method must be applied, the Group should treat each installment of the award as a separate grant, this means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.

(d) Expected credit loss

The Group is mainly exposed to credit risk associated with loans and advances.

Under U.S. GAAP, prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses. On January 1, 2020, the Group adopted FASB ASC Topic 326 and applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances.

Under IFRS, impairment model of financial assets is an expected loss model. The Group applies a three-stage impairment model to calculate their impairment allowance and recognise their expected credit losses from January 1, 2018 for loans and advances. The Group considers the credit risk characteristics of loans and advances when determining if there is significant increase in credit risk since the initial recognition. For loans and advances with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of exposure at default, probabilities of default and loss given default, based on the past history, existing market conditions as well as forward looking estimates.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, and the Unaudited Interim Condensed Consolidated Financial Information, as set out in Appendix IA and IB to this listing document, respectively, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this listing document and the Accountant's Report and Unaudited Interim Condensed Consolidated Financial Information set out in Appendix IA and IB to this listing document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company prepared in accordance with Rule 4.29 of the Listing Rules are set out below for the purpose of illustrating the effect of the Listing on the unaudited consolidated net tangible assets attributable to shareholders of the Company as at September 30, 2022 as if the Listing had taken place on that date.

The unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to shareholders of the Company as at September 30, 2022 or at any future dates following the completion of the Listing. The unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company are based on the unaudited consolidated net tangible assets attributable to the shareholders of the Company as at September 30, 2022, as shown in the Unaudited Interim Condensed Consolidated Financial Information of the Group, the text of which is set out in Appendix IB to this listing document, and adjusted as described below.

	Unaudited consolidated net tangible assets attributable to shareholders of the Company as at September 30, 2022 ⁽¹⁾ HK\$'000	Estimated listing expenses ⁽²⁾ HK\$'000	Unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company HK\$'000	Unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company per Share HK\$ ⁽³⁾
Based on				
1,123,267,879				
Shares ⁽³⁾	20,135,122	(88,888)	20,046,234	17.85

Notes:

- (1) The unaudited consolidated net tangible assets attributable to shareholders of the Company as at September 30, 2022 has been extracted from the Unaudited Interim Condensed Consolidated Financial Information of the Group as set out in Appendix IB to this listing document which is based on the unaudited consolidated net assets attributable to shareholders of the Company as at September 30, 2022 of approximately HK\$20,186.2 million with adjustment for intangible assets as at September 30, 2022 of approximately HK\$51.1 million.
- (2) The estimated listing expenses in an aggregate amount of approximately HK\$88.9 million (excluding listing expenses of approximately HK\$5.0 million which have been accounted for in the consolidated statements of comprehensive income of the Group prior to September 30, 2022) mainly include professional fees to the Joint Sponsors, legal advisers, the legal advisers to the Joint Sponsors and the Reporting Accountant.
- (3) The unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,123,267,879 Shares were in issue (for the purpose of this unaudited pro forma financial information excluding 110,839,528 Shares which are regarded as treasury stock under the share repurchase program of the Company) assuming that the Listing had been completed on September 30, 2022 but does not take into account any Shares which may be issued upon the exercise of options granted under the Share Incentive Plans or any Shares which may be issued or repurchased by the Company.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to September 30, 2022.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this listing document.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Futu Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Futu Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at September 30, 2022, and related notes (the "Unaudited Pro Forma Financial Information") as set out on page II-1 of the Company's listing document dated December 22, 2022, in connection with the proposed listing of the shares of the Company (the "Listing Document"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page II-1 of the Listing Document.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed listing on the Group's financial position as at September 30, 2022 as if the proposed listing had taken place at September 30, 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended September 30, 2022, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed listing at September 30, 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, December 22, 2022

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted by a special resolution passed on December 28, 2018 and became effective on March 12, 2019 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted, and that the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available on display on the websites specified in Appendix V in the section headed “Documents available on display”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted by a special resolution passed on December 28, 2018 and became effective on March 12, 2019 and include provisions to the effect set out below.

Notwithstanding the current provisions of the Articles, the Company undertakes to comply with (a) the applicable articles requirements under Chapter 8A of, and Appendix 3 to, the Listing Rules that are not currently met by the Articles and (b) the requirement that where a general meeting is postponed by the directors, the specific date, time and place of the postponed meeting must be specified, before the Articles are formally amended in a general meeting to be convened on or before June 30, 2023 such that immediately upon the Listing, the Company will be subject to, and will fully comply with, such articles requirements as if they have already been incorporated into the existing Articles upon the Listing (save for certain specified exceptions). For further details, please see the section headed “Waivers — Requirements relating to the Articles of Association of the Company.”

2.1 Ordinary Shares

The Company’s ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Ordinary shares are issued in registered form. Shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. In no event shall Class A ordinary shares be convertible into Class B ordinary shares.

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.

2.2 Dividends

The holders of ordinary shares are entitled to such dividends as may be declared by the Board of Directors. In addition, shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by the directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or the Company's share premium account, and provided further that a dividend may not be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business.

Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

Any dividend unclaimed after a period of six 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.

2.3 Voting Rights

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of the shareholders, except as may otherwise be required by law or provided for in the Memorandum and Articles of Association. In respect of matters requiring shareholders' vote, on a show of hands, each shareholder is entitled to one vote and on a poll, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy at such meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution. A special resolution requires the affirmative vote of not less than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of the Company, as permitted by the Companies Act and the Memorandum and Articles of Association.

2.4 Transfer of Shares

Any of the shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in the usual or common form or any other form approved by the Board of Directors.

However, the 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 the Company has a lien. The Board of Directors may also decline to register any transfer of any ordinary share unless:

- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped, if required;
- (d) in the case of a transfer to joint holders, the transfer is not to more than four joint holders; or
- (e) a fee of such maximum sum as the Designated Stock Exchange (as defined in the Articles of Association) 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.

If the directors refuse to register a transfer they are required, within three calendar months after the date on which the instrument of transfer was lodged with the Company, to send to each of the transferor and the transferee notice of such refusal.

2.5 Liquidation

On a winding up of the Company, if the assets available for distribution among the shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among the 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 the Company for unpaid calls or otherwise. If the assets available for distribution are insufficient to repay the whole of the share capital, such assets will be distributed so that the losses shall be borne by the shareholders in proportion to the par value of the shares held by them.

2.6 Redemption, Repurchase and Surrender of Shares

The Company may issue shares on terms that such shares are subject to redemption, at the option of the Company or at the option of the holder thereof, on such terms and in such manner as may be determined, before the issue of such shares, by the Board of Directors or by a special resolution of the shareholders. The Company may also repurchase any of the Company's shares provided that the manner and terms of such purchase have been approved by the Board of Directors or by ordinary resolution of the shareholders, or are otherwise authorized by the Memorandum and Articles of Association. Under the Companies Act, the redemption or repurchase of any share may be paid out of the Company's profits or out of the proceeds of a fresh 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 the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no 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, the Company may accept the surrender of any fully paid share for no consideration.

2.7 Variation of Rights of Shares

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, 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.

2.8 General Meetings of Shareholders

Shareholders' general meetings may be held in such place within or outside the Cayman Islands as the Board of Directors considers appropriate.

As a Cayman Islands exempted company, the Company is not obliged by the Companies Act to call shareholders' annual general meetings. The Memorandum and Articles of Association provide that we may in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of the shareholders may be convened by a majority of the Directors or the chairman of the Board of Directors. At least ten calendar days' notice must be given for any shareholders' meeting to those persons whose names appear as members in the Company's register of members on the date the notice is given (or on any other date determined by the directors to be the record date for such meeting) and who are entitled to vote at the meeting.

Cayman Islands 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. The Memorandum and Articles of Association allow one or more shareholders holding shares which carry in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of the Company that carry the right to vote at general meetings, to requisition an extraordinary general meeting, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, the Memorandum and Articles of Association do not provide the shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

2.9 Appointment and Removal of Directors

The Articles of Association provide that unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three, the exact number of Directors to be determined from time to time by the Board of Directors.

The Company may by ordinary resolution appoint any person to be a Director or remove any Director. In addition, 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. 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 expired shall be eligible for re-election at a meeting of the Shareholders or re-appointment by the Board of Directors.

Notwithstanding the foregoing, for as long as Image Frame Investment (HK) Limited and Qiantang River Investment Limited (together, 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 (the "**Tencent Director**") by sending a joint notice to the Company's registered office. Subject to vacation of office as described below, 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 by appointment by the Tencent Investors as aforesaid. 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). The foregoing provisions of the Articles of Association may not be amended without the prior written consent of the Tencent Investors.

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 calendar days before the meeting. Such Director is entitled to attend the meeting and be heard on the motion for his removal.

There is no shareholding qualification for Directors nor is there any specific age limit for Directors.

The office of a 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, he 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 the Articles.

2.10 Proceedings of the Board

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of the then existing Directors.

The Directors may meet together (whether within or outside 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. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.11 Changes in Share Capital

The Company may by ordinary resolution:

- (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- (b) increase its share capital by new shares of such amount as it thinks expedient;

- (c) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (d) subdivide its existing 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
- (e) 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.

2.12 Directors' Power to Issue Shares

Subject to the provisions, if any, in the Memorandum and Articles of Association and to any direction that may be given by the Company in a general meeting, the Directors may in their absolute discretion and without approval of the shareholders, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as they think proper.

2.13 Directors Borrowing Powers

The Board may exercise all the powers of the Company to issue debentures, debenture stock and other such securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

2.14 Disclosure of Interest in Contracts with the Company or any of our Subsidiaries

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.

2.15 Remuneration of Directors

The remuneration of the Directors may be determined by the Directors or by ordinary resolution.

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 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.

2.16 Restriction on Ownership of Securities

There are no provisions in the Articles of Association relating to restrictions on ownership of the Company's shares or securities.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on April 15, 2014 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act 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) "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 authorised by (a) a special resolution of each constituent company and (b) such other authorisation, 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. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

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 (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

18 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

19 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) 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:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisor on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display as referred to in the section headed "Documents available on display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on April 15, 2014. Our registered office address is at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III to this document.

Our head office and principal place of business in Hong Kong is at 11/F, Bangkok Bank Building, No. 18 Bonham Strand West, Sheung Wan, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 28, 2021 with the Registrar of Companies in Hong Kong. Ms. Lam Wing Chi has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

2. Changes in share capital of our Company

Our Company was incorporated with an authorized share capital of US\$50,000.00 divided into 10,000,000 shares of a par value of US\$0.005 each.

Upon our incorporation, our Company issued one Ordinary Share to Nominees Services Ltd., which subsequently transferred the share to Mr. Li, our founder, chairman of the Board, executive Director and chief executive officer, for a consideration of US\$0.005. On the same date, our Company further issued 807,499 Ordinary Shares to Mr. Li for an aggregate consideration of US\$4,037.495.

On October 31, 2014, our Company 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, our Company 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 Series B Preferred Shares to Sequoia Capital CV IV Holdco, Ltd. for an aggregate consideration of approximately US\$1.1 million.

On September 22, 2016, our Company 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 at that time 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.

On May 22, 2017, our Company 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.

On March 8, 2019, our Company issued a total of 115,666,666 Class A Ordinary Shares pursuant to our initial public offering on the Nasdaq and the concurrent private placement. Immediately prior to the completion of this offering, our authorized share capital was changed into US\$500,000.00 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 may determine in accordance with our Memorandum and Articles of Association. For details, please see “History and Corporate Structure — Listing on the Nasdaq.”

The following sets out the changes in the Company's issued share capital during the two years immediately preceding the date of this document:

- (a) On December 8, 2020, our Company entered into a securities purchase agreement with a leading global investment firm for a private placement of 53,600,000 Class A Ordinary Shares in the form of prepaid warrants to a leading global investment firm at a price of US\$4.89751 less a nominal exercise price of US\$0.00001 per Pre-Funded Warrant. Such Pre-Funded Warrants were immediately exercisable and had a termination date in June 2022. On June 11, 2021, the Pre-Funded Warrants were exercised in full and 53,599,890 Class A Ordinary Shares have been issued upon full exercise of such Pre-Funded Warrants.
- (b) On April 24, 2021, our Company completed our follow-up offering on Nasdaq where we issued and sold a total of 87,400,000 Class A Ordinary Shares represented by ADSs at a public offering price of US\$130.00 per ADS.
- (c) During the two years immediately preceding the date of this document, our Company issued 9,832,752 Class A Ordinary Shares to settle certain vested options granted and vested RSUs under our Share Incentive Plans.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this document.

3. Changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our principal subsidiaries and Consolidated Affiliated Entities are set out in note 1 to the Accountant's Report as set out in Appendix I to this document.

The following sets out the changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities during the two years immediately preceding the date of this document. For details of our major subsidiaries and Consolidated Affiliated Entities, please refer to the section headed "History and Corporate Structure — Our Major Subsidiaries and Consolidated Affiliated Entities."

Futu International Hong Kong

- On January 8, 2021, the issued share capital of Futu International Hong Kong was increased from HKD3,050,000,000 to HKD4,050,000,000.
- On January 26, 2021, the issued share capital of Futu International Hong Kong was increased from HKD4,050,000,000 to HKD4,600,000,000.

- On January 29, 2021, the issued share capital of Futu International Hong Kong was increased from HKD4,600,000,000 to HKD5,200,000,000.

Moomoo Financial Singapore

- On April 5, 2021, the issued share capital of Moomoo Financial Singapore was increased from SGD10,000,000.00 to SGD20,000,000.00.
- On April 30, 2021, the issued share capital of Moomoo Financial Singapore was increased from SGD20,000,000.00 to SGD50,000,000.00.
- On June 29, 2021, the issued share capital of Moomoo Financial Singapore was increased from SGD50,000,000.00 to SGD80,000,000.00.
- On September 8, 2021, the issued share capital of Moomoo Financial Singapore was increased from SGD80,000,000.00 to SGD100,000,000.00.
- On December 15, 2021, the issued share capital of Moomoo Financial Singapore was increased from SGD100,000,000.00 to SGD120,000,000.00.
- On May 4, 2022, the issued share capital of Moomoo Financial Singapore was increased from SGD120,000,000.00 to SGD180,000,000.00.

Futu Australia

- On March 8, 2022, the issued share capital of Futu Australia was increased from AUD4,360,020 to AUD6,660,020.
- On March 9, 2022, the issued share capital of Futu Australia was increased from AUD6,660,020 to AUD16,660,020.

Moomoo Financial Inc.

- On August 19, 2021, the issued share capital of Moomoo Financial Inc. was decreased from USD23,209,998.1 to USD22,209,998.1.
- On December 23, 2021, the issued share capital of Moomoo Financial Inc. was increased from USD22,209,998.1 to USD24,209,998.1.
- On December 30, 2021, the issued share capital of Moomoo Financial Inc. was increased from USD24,209,998.1 to USD28,209,998.1.

Futu Clearing Inc.

- On April 14, 2021, the issued share capital of Futu Clearing Inc. was increased from USD20,199,999.9 to USD30,199,999.9.
- On April 29, 2021, the issued share capital of Futu Clearing Inc. was increased from USD30,199,999.9 to USD430,199,999.9.
- On July 1, 2022, the issued share capital of Futu Clearing Inc. was increased from USD430,199,999.9 to USD480,199,999.9.

Save as disclosed above, there has been no alteration in the share capital of any major subsidiary or Consolidated Affiliated Entity of our Company within the two years immediately preceding the date of this document.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a termination agreement dated September 30, 2021 entered into among Shensi Beijing, Shenzhen Futu, Mr. Leaf Hua Li (李華) and Ms. Lei Li (李鏞), pursuant to which the parties agreed to terminate the second amended and restated exclusive technical consultation and service agreement dated September 28, 2018, the second amended and restated business operation agreement dated September 28, 2018; the second amended and restated equity pledge agreements dated September 28, 2018; the second amended and restated shareholder voting rights proxy agreement dated September 28, 2018; the second amended and restated exclusive option agreement dated September 28, 2018; the spouse consent letter signed by Mr. Leaf Hua Li (李華), the spouse of Ms. Lei Li (李鏞), and the spouse consent letter signed by Ms. Lei Li (李鏞), the spouse of Mr. Leaf Hua Li (李華);
- (b) an exclusive business cooperation agreement dated September 30, 2021 entered into between Shensi Beijing and Shenzhen Futu, pursuant to which Shensi Beijing agreed to be engaged as the exclusive provider of technical support, consulting services and other services to Shenzhen Futu in return for service fees;
- (c) an exclusive option agreement dated September 30, 2021 entered into among Shensi Beijing, Shenzhen Futu and Mr. Leaf Hua Li (李華), pursuant to which Mr. Leaf Hua Li (李華) irrevocably granted Shensi Beijing an exclusive option to purchase all or part of his equity interests in Shenzhen Futu at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;

- (d) an exclusive option agreement dated September 30, 2021 entered into among Shensi Beijing, Shenzhen Futu and Ms. Lei Li (李鐳), pursuant to which Ms. Lei Li (李鐳) irrevocably granted Shensi Beijing an exclusive option to purchase all or part of her equity interests in Shenzhen Futu at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;
- (e) an equity pledge agreement dated September 30, 2021 entered into among Shensi Beijing, Shenzhen Futu and Mr. Leaf Hua Li (李華), pursuant to which Mr. Leaf Hua Li (李華) agreed to pledge all of his equity interests in Shenzhen Futu in favor of Shensi Beijing;
- (f) an equity pledge agreement dated September 30, 2021 entered into among Shensi Beijing, Shenzhen Futu and Ms. Lei Li (李鐳), pursuant to which Ms. Lei Li (李鐳) agreed to pledge all of her equity interests in Shenzhen Futu in favor of Shensi Beijing;
- (g) a power of attorney agreement dated September 30, 2021 executed by Mr. Leaf Hua Li (李華) in favor of Shensi Beijing, pursuant to which Mr. Leaf Hua Li (李華), among other things, irrevocably authorized Shensi Beijing or its designated person(s) to exercise all of his rights as a shareholder of Shenzhen Futu;
- (h) a power of attorney agreement dated September 30, 2021 executed by Ms. Lei Li (李鐳) in favor of Shensi Beijing, pursuant to which Ms. Lei Li (李鐳), among other things, irrevocably authorized Shensi Beijing or its designated person(s) to exercise all of her rights as a shareholder of Shenzhen Futu;
- (i) a termination agreement dated September 30, 2021 entered into among Shensi Beijing, Hainan Futu, Mr. Leaf Hua Li (李華) and Ms. Lei Li (李鐳), pursuant to which the parties agreed to terminate the exclusive technical consultation and service agreement dated September 28, 2018, the business operation agreement dated September 28, 2018, the exclusive option agreement dated September 28, 2018, the equity pledge agreements dated September 28, 2018; the shareholder voting rights proxy agreement dated September 28, 2018, the spouse consent letter signed by Mr. Leaf Hua Li (李華), the spouse of Ms. Lei Li (李鐳), and the spouse consent letter signed by Ms. Lei Li (李鐳), the spouse of Mr. Leaf Hua Li (李華);
- (j) an exclusive business cooperation agreement dated September 30, 2021 entered into between Shensi Beijing and Hainan Futu, pursuant to which Shensi Beijing agreed to be engaged as the exclusive provider of technical support, consulting services and other services to Hainan Futu in return for service fees;
















- (k) an exclusive option agreement dated September 30, 2021 entered into among Shensi Beijing, Hainan Futu and Mr. Leaf Hua Li (李華), pursuant to which Mr. Leaf Hua Li (李華) irrevocably granted Shensi Beijing an exclusive option to purchase all or part of his equity interests in Hainan Futu at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;
- (l) an exclusive option agreement dated September 30, 2021 entered into among Shensi Beijing, Hainan Futu and Ms. Lei Li (李鐳), pursuant to which Ms. Lei Li (李鐳) irrevocably granted Shensi Beijing an exclusive option to purchase all or part of her equity interests in Hainan Futu at the lowest price permitted under the laws and regulations of the PRC at the time of exercise;
- (m) an equity pledge agreement dated September 30, 2021 entered into among Shensi Beijing, Hainan Futu and Mr. Leaf Hua Li (李華), pursuant to which Mr. Leaf Hua Li (李華) agreed to pledge all of his equity interests in Hainan Futu in favor of Shensi Beijing;
- (n) an equity pledge agreement dated September 30, 2021 entered into among Shensi Beijing, Hainan Futu and Ms. Lei Li (李鐳), pursuant to which Ms. Lei Li (李鐳) agreed to pledge all of her equity interests in Hainan Futu in favor of Shensi Beijing;
- (o) a power of attorney agreement dated September 30, 2021 executed by Mr. Leaf Hua Li (李華) in favor of Shensi Beijing, pursuant to which Mr. Leaf Hua Li (李華), among other things, irrevocably authorized Shensi Beijing or its designated person(s) to exercise all of his rights as a shareholder of Hainan Futu;
- (p) a power of attorney agreement dated September 30, 2021 executed by Ms. Lei Li (李鐳) in favor of Shensi Beijing, pursuant to which Ms. Lei Li (李鐳), among other things, irrevocably authorized Shensi Beijing or its designated person(s) to exercise all of her rights as a shareholder of Hainan Futu; and
- (q) a sponsor agreement relating to the Listing dated December 22, 2022 entered into among the Company, Goldman Sachs (Asia) L.L.C. and UBS Securities Hong Kong Limited, relating to the engagement of the Joint Sponsors by the Company in connection with the Introduction.

2. Intellectual Property Rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

(a) Trademarks






As at the Latest Practicable Date, we had registered the following trademarks that we consider to be or may be material to our business:

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
1.		Shenzhen Futu	The PRC	9	13912550	January 20, 2027
2.		Shenzhen Futu	The PRC	9	13913472	March 6, 2025
3.		Shenzhen Futu	The PRC	9	13913696	March 6, 2025
4.		Shenzhen Futu	The PRC	36	13912631	April 13, 2025
5.		Shenzhen Futu	The PRC	36	13913525	February 27, 2025
6.		Shenzhen Futu	The PRC	36	13913744	February 27, 2025
7.		Shenzhen Futu	The PRC	42	13912704	April 13, 2025
8.		Shenzhen Futu	The PRC	42	13913588	March 6, 2025
9.		Shenzhen Futu	The PRC	42	13913811	March 6, 2025
10.		Shenzhen Futu	The PRC	9	17352963	September 13, 2026
11.		Shenzhen Futu	The PRC	9	17352246	September 6, 2026
12.		Shenzhen Futu	The PRC	9	17352399	September 6, 2026
13.		Shenzhen Futu	The PRC	36	17352246	September 6, 2026
14.		Shenzhen Futu	The PRC	36	17352399	September 6, 2026
15.		Shenzhen Futu	The PRC	36	17352963	September 13, 2026
16.		Shenzhen Futu	The PRC	42	17352246	September 6, 2026
17.		Shenzhen Futu	The PRC	42	17352963	September 13, 2026













No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
18.		Shenzhen Futu	The PRC	42	17352399	September 6, 2026
19.		Shenzhen Futu	The PRC	9	17668667	January 6, 2027
20.		Shenzhen Futu	The PRC	36	18044801	November 20, 2026
21.		Shenzhen Futu	The PRC	42	18044801	November 20, 2026
22.		Shenzhen Futu	The PRC	9	20267033	March 20, 2028
23.		Shenzhen Futu	The PRC	35	20267033	March 20, 2028
24.		Shenzhen Futu	The PRC	36	20267033	March 20, 2028
25.		Shenzhen Futu	The PRC	42	20267033	March 20, 2028
26.		Shenzhen Futu	The PRC	9	20662341	November 6, 2027
27.		Shenzhen Futu	The PRC	9	20662402	April 27, 2028
28.		Shenzhen Futu	The PRC	9	20662456	April 27, 2028
29.		Shenzhen Futu	The PRC	9	20662281	September 6, 2027
30.		Shenzhen Futu	The PRC	28	20662341	November 6, 2027
31.		Shenzhen Futu	The PRC	28	20662402	April 27, 2028
32.		Shenzhen Futu	The PRC	28	20662281	September 6, 2027
33.		Shenzhen Futu	The PRC	28	20662456	April 27, 2028
34.		Shenzhen Futu	The PRC	12	23364757	March 6, 2029
35.		Shenzhen Futu	The PRC	38	23379223	June 13, 2028
36.		Shenzhen Futu	The PRC	41	23379557	March 20, 2028
37.		Shenzhen Futu	The PRC	12	23456129	March 27, 2028


















No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
38.	FUTU	Shenzhen Futu	The PRC	28	23460015	March 20, 2029
39.	FUTU	Shenzhen Futu	The PRC	41	23466618	March 20, 2028
40.		Shenzhen Futu	The PRC	9	25551228A	September 13, 2028
41.		Shenzhen Futu	The PRC	9	25559173A	September 13, 2028
42.		Shenzhen Futu	The PRC	36	25559173A	September 13, 2028
43.		Shenzhen Futu	The PRC	36	25551228A	September 13, 2028
44.		Shenzhen Futu	The PRC	42	25559173A	September 13, 2028
45.		Shenzhen Futu	The PRC	42	25551228A	September 13, 2028
46.		Shenzhen Futu	The PRC	9	26549801	September 13, 2028
47.		Shenzhen Futu	The PRC	9	26549871	September 13, 2028
48.		Shenzhen Futu	The PRC	9	26539154	September 13, 2028
49.		Shenzhen Futu	The PRC	9	26548306	September 13, 2028
50.		Shenzhen Futu	The PRC	9	26534023	September 6, 2028
51.	FUTU FAMILY	Shenzhen Futu	The PRC	9	26543368	October 6, 2028
52.		Shenzhen Futu	The PRC	9	26553712	September 13, 2028
53.	FUTU FAMILY	Shenzhen Futu	The PRC	36	26543368	October 6, 2028
54.		Shenzhen Futu	The PRC	36	26548306	September 13, 2028
55.		Shenzhen Futu	The PRC	36	26543341	February 6, 2030
56.		Shenzhen Futu	The PRC	36	26549801	September 13, 2028





















No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
57.	 富途牛牛	Shenzhen Futu	The PRC	36	26549871	September 13, 2028
58.	 富途牛牛	Shenzhen Futu	The PRC	36	26553712	September 13, 2028
59.	 富途牛牛	Shenzhen Futu	The PRC	36	26534023	September 6, 2028
60.	 富途牛牛 FUTUNN.COM	Shenzhen Futu	The PRC	36	26539154	September 13, 2028
61.	 富途牛牛	Shenzhen Futu	The PRC	42	26534023	September 6, 2028
62.	 富途牛牛 富途牛牛	Shenzhen Futu	The PRC	42	26548306	September 13, 2028
63.	 富途牛牛	Shenzhen Futu	The PRC	42	26549801	September 13, 2028
64.	 富途牛牛	Shenzhen Futu	The PRC	42	26549871	September 13, 2028
65.	 富途牛牛	Shenzhen Futu	The PRC	42	26553712	September 13, 2028
66.	 富途牛牛 FUTUNN.COM	Shenzhen Futu	The PRC	42	26539154	September 13, 2028
67.	 富途	Shenzhen Futu	The PRC	42	26543341	February 6, 2030
68.	FUTU FAMILY	Shenzhen Futu	The PRC	42	26543368	October 6, 2028
69.	 富途牛牛	Shenzhen Futu	The PRC	36	29069359	February 20, 2029
70.	 富途牛牛	Shenzhen Futu	The PRC	16	30698934	April 6, 2029
71.	 富途牛牛	Shenzhen Futu	The PRC	16	30699352	April 6, 2029
72.	 富途牛牛	Shenzhen Futu	The PRC	18	30699352	April 6, 2029
73.	 富途牛牛	Shenzhen Futu	The PRC	18	30698934	April 6, 2029
74.	 富途牛牛	Shenzhen Futu	The PRC	21	30698934	April 6, 2029
75.	 富途牛牛	Shenzhen Futu	The PRC	21	30699352	April 6, 2029




No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
76.		Shenzhen Futu	The PRC	22	30681435	April 13, 2029
77.		Shenzhen Futu	The PRC	22	30690669	April 6, 2029
78.		Shenzhen Futu	The PRC	24	30681435	April 13, 2029
79.		Shenzhen Futu	The PRC	24	30690669	April 6, 2029
80.		Shenzhen Futu	The PRC	25	30690669	April 6, 2029
81.		Shenzhen Futu	The PRC	25	30681435	April 13, 2029
82.		Shenzhen Futu	The PRC	28	30677280	April 6, 2029
83.		Shenzhen Futu	The PRC	35	30677280	April 6, 2029
84.		Shenzhen Futu	The PRC	35	30676330	May 6, 2030
85.	moomoo	Shenzhen Futu	The PRC	36	33556049	May 20, 2029
86.		Shenzhen Futu	The PRC	36	33572077	April 27, 2030
87.	FUTUBULL	Shenzhen Futu	The PRC	9	36910903	November 6, 2029
88.	FUTUBULL	Shenzhen Futu	The PRC	35	36887630	November 6, 2029
89.	FUTUBULL	Shenzhen Futu	The PRC	36	36909127	November 6, 2029
90.	FUTUBULL	Shenzhen Futu	The PRC	41	36897653	November 6, 2029
91.	FUTUBULL	Shenzhen Futu	The PRC	42	36910969	November 20, 2029
92.	富途股票卡	Shenzhen Futu	The PRC	9	37530238	January 13, 2030
93.	富途股票卡	Shenzhen Futu	The PRC	36	37514274	January 13, 2030
94.	富途股票卡	Shenzhen Futu	The PRC	42	37511716	January 13, 2030
95.	富途安逸	Shenzhen Futu	The PRC	9	37921438	January 6, 2030

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
96.		Shenzhen Futu	The PRC	9	37934097	January 27, 2030
97.	富途安逸	Shenzhen Futu	The PRC	35	37915220	January 27, 2030
98.		Shenzhen Futu	The PRC	35	37912338	January 27, 2030
99.		Shenzhen Futu	The PRC	36	37910669	January 27, 2030
100.	富途安逸	Shenzhen Futu	The PRC	36	37906547	January 6, 2030
101.	富途安逸	Shenzhen Futu	The PRC	42	37934131	January 13, 2030
102.		Shenzhen Futu	The PRC	42	37904378	December 27, 2029
103.		Shenzhen Futu	The PRC	9	38083968	March 6, 2030
104.		Shenzhen Futu	The PRC	9	38083947	January 13, 2031
105.		Shenzhen Futu	The PRC	9	38083943	September 27, 2030
106.	富途安逸	Shenzhen Futu	The PRC	35	38068096	January 27, 2030
107.		Shenzhen Futu	The PRC	35	38063551	May 20, 2030
108.		Shenzhen Futu	The PRC	36	38077396	March 6, 2030
109.		Shenzhen Futu	The PRC	36	38084129	September 6, 2030
110.		Shenzhen Futu	The PRC	36	38068024	January 27, 2030
111.		Shenzhen Futu	The PRC	41	38065691	April 27, 2030
112.	富途安逸	Shenzhen Futu	The PRC	41	38074798	March 6, 2030
113.		Shenzhen Futu	The PRC	41	38074779	April 20, 2030














No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
114.		Shenzhen Futu	The PRC	42	38089672	March 6, 2030
115.		Shenzhen Futu	The PRC	9	41145846	May 20, 2030
116.		Shenzhen Futu	The PRC	36	41148560	May 20, 2030
117.		Shenzhen Futu	The PRC	42	41145928	May 20, 2030
118.		Shenzhen Futu	The PRC	9	44113546	October 13, 2030
119.		Shenzhen Futu	The PRC	36	44114797	October 13, 2030
120.		Shenzhen Futu	The PRC	42	44111769	January 13, 2031
121.	FUTU MONEYPLUS	Shenzhen Futu	The PRC	9	44753407	December 6, 2030
122.	FUTU MONEYPLUS	Shenzhen Futu	The PRC	36	44759187	December 6, 2030
123.	FUTU MONEYPLUS	Shenzhen Futu	The PRC	42	44776221	December 20, 2030
124.		Shenzhen Futu	The PRC	38	45855989	January 13, 2031
125.	富途机构号	Shenzhen Futu	The PRC	38	45821062	December 27, 2030
126.	富途媒体号	Shenzhen Futu	The PRC	38	45859213	January 13, 2031
127.	fupower	Shenzhen Futu	The PRC	36	45927172	January 6, 2031
128.		Shenzhen Futu	The PRC	36	47435557	March 6, 2031
129.		Shenzhen Futu	The PRC	38	47405122	March 6, 2031
130.		Shenzhen Futu	The PRC	41	47425472	March 6, 2031
131.	FUTU	Shenzhen Futu	The HK	9, 36, 42	302873818	January 20, 2024
132.		Shenzhen Futu	The HK	9, 36, 42	302873737	January 20, 2024
133.	富途牛牛	Shenzhen Futu	The HK	9, 36, 42	302873746	January 20, 2024



















No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
134.		Shenzhen Futu	The HK	9, 36, 42	303138471	September 17, 2024
135.		Shenzhen Futu	The HK	9, 36, 42	303138462	September 17, 2024
136.		Shenzhen Futu	The HK	9, 35, 36, 42	303436821	June 9, 2025
137.		Shenzhen Futu	The HK	9, 36, 42	303479798	July 21, 2025
138.		Shenzhen Futu	The HK	9, 36, 42	303479789	July 21, 2025
139.		Shenzhen Futu	The HK	9, 36, 42	303479770	July 21, 2025
140.	富途證券	Shenzhen Futu	The HK	36, 42	303568726	October 18, 2025
141.		Shenzhen Futu	The HK	9, 36, 42	303803599	June 12, 2026
142.	富途财经	Shenzhen Futu	The HK	9, 36, 38, 42	303803625	June 12, 2026
143.		Shenzhen Futu	The HK	9, 12, 25, 28	303840714	July 17, 2026
144.		Shenzhen Futu	The HK	9, 12, 25, 28	303840688	July 17, 2026
145.	 富途證券	Shenzhen Futu	The HK	9, 12, 25, 28	303840705	July 17, 2026
146.	富途	Shenzhen Futu	The HK	9, 12, 25, 28	303840697	July 17, 2026
147.		Shenzhen Futu	The HK	9, 36, 42	303949930	November 1, 2026
148.		Shenzhen Futu	The HK	9, 36, 42	304242870	August 15, 2027
149.		Shenzhen Futu	The HK	9, 36, 42	304242861	August 15, 2027
150.		Shenzhen Futu	The HK	9, 36, 42	304242889	August 15, 2027
151.		Shenzhen Futu	The HK	9, 36, 42	304297429	October 10, 2027
152.		Shenzhen Futu	The HK	9, 36, 42	304297465	October 10, 2027
153.		Shenzhen Futu	The HK	9, 36, 42	304297500	October 10, 2027














No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
154.		Shenzhen Futu	The HK	9, 36, 42	304297492	October 10, 2027
155.		Shenzhen Futu	The HK	9, 36, 42	304297519	October 10, 2027
156.		Shenzhen Futu	The HK	9, 36, 42	304297546	October 10, 2027
157.		Shenzhen Futu	The HK	9, 36, 42	304297410	October 10, 2027
158.		Shenzhen Futu	The HK	9, 36, 42	304297401	October 10, 2027
159.		Shenzhen Futu	The HK	9, 36, 42	304297474	October 10, 2027
160.		Shenzhen Futu	The HK	9, 36, 42	304297456	October 10, 2027
161.		Shenzhen Futu	The HK	9, 36, 42	304297483	October 10, 2027
162.		Shenzhen Futu	The HK	35, 38, 41	304344688	November 22, 2027
163.		Shenzhen Futu	The HK	35, 38, 41	304344679	November 22, 2027
164.		Shenzhen Futu	The HK	9	304678309	September 23, 2028
165.		Shenzhen Futu	The HK	35	304678336	September 23, 2028
166.		Shenzhen Futu	The HK	42	304678435	September 23, 2028
167.		Shenzhen Futu	The HK	36	304678363	September 23, 2028
168.		Shenzhen Futu	The HK	41	304678408	September 23, 2028
169.		Shenzhen Futu	The HK	9	304678282	September 23, 2028
170.		Shenzhen Futu	The HK	35	304678318	September 23, 2028
171.		Shenzhen Futu	The HK	35	304678327	September 23, 2028
172.		Shenzhen Futu	The HK	42	304678417	September 23, 2028
173.		Shenzhen Futu	The HK	36	304678345	September 23, 2028

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
174.	moomoo	Shenzhen Futu	The HK	42	304678426	September 23, 2028
175.	moomoo	Shenzhen Futu	The HK	36	304678354	September 23, 2028
176.	moomoo	Shenzhen Futu	The HK	9	304678291	September 23, 2028
177.	FUTUBULL	Shenzhen Futu	The HK	35	304864843	March 20, 2029
178.	FUTUBULL	Shenzhen Futu	The HK	42	304864870	March 20, 2029
179.	FUTUBULL	Shenzhen Futu	The HK	9	304864834	March 20, 2029
180.	FUTUBULL	Shenzhen Futu	The HK	36	304864852	March 20, 2029
181.	FUTUBULL	Shenzhen Futu	The HK	41	304864861	March 20, 2029
182.	富途股票卡	Shenzhen Futu	The HK	9, 16, 35, 36, 42	304899098	April 22, 2029
183.	FUTU I&E	Shenzhen Futu	The HK	9, 35, 36, 42	304910463	April 29, 2029
184.	富途安逸	Shenzhen Futu	The HK	9, 35, 36, 42	304910454	April 29, 2029
185.		Shenzhen Futu	The HK	9, 35, 36, 41, 42	304918942	May 8, 2029
186.		Shenzhen Futu	The HK	9, 35, 36, 41, 42	304918979	May 8, 2029
187.	 Stockcard	Shenzhen Futu	The HK	9, 35, 36, 41, 42	304918960	May 8, 2029
188.	富途安逸	Shenzhen Futu	The HK	9, 35, 36, 41, 42	304918988	May 8, 2029
189.	富途安逸	Shenzhen Futu	The HK	9, 35, 36, 41, 42	304918997	May 8, 2029
190.	富途基金寶	Shenzhen Futu	The HK	36	305052960	September 10, 2029
191.	富途大額財富	Shenzhen Futu	The HK	36	305062590	September 19, 2029
192.	FUTU MONEY PLUS	Shenzhen Futu	The HK	36	305227038	March 22, 2030
193.	fupower	Shenzhen Futu	The HK	35, 36	305261373	April 29, 2030

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
194.	富途企業號	Shenzhen Futu	The HK	35	305265784	May 6, 2030
195.	富途媒體號	Shenzhen Futu	The HK	35	305265793	May 6, 2030
196.	富途機構號	Shenzhen Futu	The HK	35	305265801	May 6, 2030
197.	富途財學堂	Shenzhen Futu	The HK	41	305311638	June 22, 2030
198.		Shenzhen Futu	The HK	41	305509062	January 17, 2031
199.		Shenzhen Futu	The HK	9, 42	305624307	May 12, 2031
200.	富途牛牛	Shenzhen Futu	The HK	35, 38, 41	305673826	June 29, 2031
201.	moomoo token	Shenzhen Futu	The HK	9, 36, 42	305673736	June 29, 2031
202.	FUTU I&E	Shenzhen Futu	The HK	38, 41	305673745	June 29, 2031
203.	FUTUBULL	Shenzhen Futu	The HK	38	305673673	June 29, 2031
204.	FUTU MONEY PLUS	Shenzhen Futu	The HK	9, 35, 38, 41, 42	305673763	June 29, 2031
205.	富途令牌	Shenzhen Futu	The HK	36	305673808	June 29, 2031
206.	FUTU FAMILY	Shenzhen Futu	The HK	28, 35	305673781	June 29, 2031
207.	富途	Shenzhen Futu	The HK	41	305673817	June 29, 2031
208.		Shenzhen Futu	The HK	38	305673754	June 29, 2031
209.		Shenzhen Futu	The HK	38	305673682	June 29, 2031
210.		Shenzhen Futu	The HK	35	305673772	June 29, 2031
211.		Shenzhen Futu	The HK	38, 41	305673655	June 29, 2031
212.		Shenzhen Futu	The HK	9, 36, 42	305673718	June 29, 2031
213.		Shenzhen Futu	The HK	36	305673790	June 29, 2031

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
214.		Shenzhen Futu	The HK	35, 38, 41	305673664	June 29, 2031
215.		Shenzhen Futu	The US	9, 36, 42	5371410	January 2, 2028
216.	FUTU	Shenzhen Futu	The US	9, 36, 42	5371411	January 2, 2028
217.	FUTUBULL	Shenzhen Futu	The US	9, 36, 42	5371412	January 2, 2028
218.		Shenzhen Futu	The US	42	6108527	July 21, 2030
219.		Shenzhen Futu	The US	41	6075711	June 9, 2030
220.		Shenzhen Futu	The US	36	6075710	June 9, 2030
221.	moomoo	Shenzhen Futu	The US	35	6086365	June 23, 2030
222.	moomoo	Shenzhen Futu	The US	42	6086366	June 23, 2030
223.	 moomoo	Shenzhen Futu	The US	41	6086367	June 23, 2030
224.	 moomoo	Shenzhen Futu	The US	36	6075712	June 9, 2030
225.	 moomoo	Shenzhen Futu	The US	9	6201187	November 17, 2030
226.	FUTUBULL	Shenzhen Futu	The US	36	6190595	November 3, 2030
227.		Shenzhen Futu	The US	9	6365634	May 25, 2031
228.		Shenzhen Futu	The US	36	6357282	May 18, 2031
229.		Shenzhen Futu	The US	41	6365635	May 25, 2031
230.		Shenzhen Futu	The US	36	6365647	May 25, 2031
231.	FUTU MONEY PLUS	Shenzhen Futu	The US	36	6381555	June 8, 2031
232.	FUTU PAGE	Shenzhen Futu	The US	35	6421245	July 13, 2031
233.		Shenzhen Futu	The US	9	6620506	January 17, 2032

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
234.		Shenzhen Futu	Singapore	9	40202018183S	September 1, 2030
235.		Shenzhen Futu	Singapore	35	40202018182R	September 1, 2030
236.		Shenzhen Futu	Singapore	36	40202018194X	September 1, 2030
237.		Shenzhen Futu	Singapore	35	40202018191R	September 1, 2030
238.		Shenzhen Futu	Singapore	9	40202018190T	September 1, 2030
239.		Shenzhen Futu	Singapore	35	40202018184P	September 1, 2030
240.		Shenzhen Futu	Singapore	36	40202018186U	September 1, 2030
241.		Shenzhen Futu	Singapore	36	40202018189X	September 1, 2030
242.		Shenzhen Futu	Singapore	9	40202018187Y	September 1, 2030
243.		Shenzhen Futu	Singapore	35	40202018188W	September 1, 2030
244.		Shenzhen Futu	Singapore	36	40202018193V	September 1, 2030
245.		Shenzhen Futu	Singapore	35	40202018185T	September 1, 2030
246.		Shenzhen Futu	Singapore	9	40202018192P	September 1, 2030
247.		Shenzhen Futu	Singapore	36	40202022137X	October 23, 2030
248.		Shenzhen Futu	Singapore	9	40202022134Q	October 23, 2030
249.		Shenzhen Futu	Singapore	35	40202022136T	October 23, 2030
250.		Shenzhen Futu	Singapore	9	40202022135U	October 23, 2030
251.		Shenzhen Futu	Singapore	35	40202022138V	October 23, 2030
252.		Shenzhen Futu	Singapore	36	40202022139S	October 23, 2030
253.		Shenzhen Futu	Singapore	9	40202103271W	February 8, 2031

No.	Trademark	Registered Owner	Place of registration	Class	Registered Number	Expiry Date
254.		Shenzhen Futu	Singapore	9	40202112864Q	May 30, 2031
255.		Shenzhen Futu	Singapore	35	40202112865U	May 30, 2031
256.		Shenzhen Futu	Singapore	36	40202112867X	May 30, 2031
257.		Shenzhen Futu	Singapore	38	40202112868V	May 30, 2031
258.		Shenzhen Futu	Singapore	41	40202112870Q	May 30, 2031
259.		Shenzhen Futu	Singapore	42	40202112871W	May 30, 2031
260.		Shenzhen Futu	Singapore	9	40202112872U	May 30, 2031
261.		Shenzhen Futu	Singapore	35	40202112873P	May 30, 2031
262.		Shenzhen Futu	Singapore	36	40202112874Y	May 30, 2031
263.		Shenzhen Futu	Singapore	38	40202112875X	May 30, 2031
264.		Shenzhen Futu	Singapore	41	40202112876S	May 30, 2031
265.		Shenzhen Futu	Singapore	42	40202112878R	May 30, 2031
266.		Shenzhen Futu	Australia	9	2208507	September 6, 2031
267.		Shenzhen Futu	Australia	35	2208508	September 6, 2031
268.		Shenzhen Futu	Australia	36	2208510	September 6, 2031
269.		Shenzhen Futu	Australia	38	2208511	September 6, 2031
270.		Shenzhen Futu	Australia	41	2208513	September 6, 2031
271.		Shenzhen Futu	Australia	42	2208514	September 6, 2031

(b) Patents

As of the Latest Practicable Date, we had owned the following patents which we consider to be or may be material in relation to our Group's business:

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
1.	用於客戶端的操作方式的推送方法和通訊系統	Shenzhen Futu	2014103501098	Invention Patent	July 23, 2014
2.	客戶端的布局設定與服務器同步存儲的方法及其系統	Futu Network Technology (Shenzhen) Co., Ltd.	2014103632107	Invention Patent	July 29, 2014
3.	一種基於視頻識別的身份認證方法及其系統	Shenzhen Futu	2014105957565	Invention Patent	October 30, 2014
4.	基於客戶端的多種類型標籤頁顯示方法及其系統	Shenzhen Futu	2014104892582	Invention Patent	September 24, 2014
5.	基於Canvas和WebWorker的像素差逐幀動畫的實現方法	Shenzhen Futu	2016101692687	Invention Patent	March 23, 2016
6.	一種向畫布添加二維界面組件時的建議位置生成方法	Shenzhen Futu	20171113952849	Invention Patent	December 21, 2017
7.	一種用於移動終端的直播視頻浮窗播放方法	Shenzhen Futu	2018100546358	Invention Patent	January 19, 2018
8.	帶股票應用界面的電腦	Shenzhen Futu	2014305519773	Design Patent	December 25, 2014
9.	帶股票應用界面的電腦	Shenzhen Futu	2016305255276	Design Patent	October 26, 2016
10.	帶圖形用戶界面的電腦 (證券軟件自定義界面)	Shenzhen Futu	2017303768671	Design Patent	August 16, 2017
11.	帶圖形用戶界面的電腦 (證券軟件截屏及編輯)	Shenzhen Futu	2017304256577	Design Patent	September 8, 2017
12.	帶圖形用戶界面的手機 (個股行情快照卡片編輯界面)	Shenzhen Futu	2017305505026	Design Patent	November 9, 2017
13.	帶圖形用戶界面的手機 (指數條插件)	Shenzhen Futu	2017305671806	Design Patent	November 16, 2017
14.	帶股票應用界面的電腦 (更新)	Shenzhen Futu	2017305772972	Design Patent	November 22, 2017

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
15.	帶圖形用戶界面的手機 (美股期權鏈)	Shenzhen Futu	2017305773087	Design Patent	November 22, 2017
16.	帶圖形用戶界面的手機 (富途種子)	Shenzhen Futu	2017305773123	Design Patent	November 22, 2017
17.	帶圖形用戶界面的手機 (牛牛動態刷新加載)	Shenzhen Futu	2017305795832	Design Patent	November 22, 2017
18.	帶股票應用界面的手機 (盤前盤後分時圖)	Shenzhen Futu	2017306782420	Design Patent	December 28, 2017
19.	帶股票應用界面的手機 (股票成交統計)	Shenzhen Futu	2018300029598	Design Patent	January 4, 2018
20.	帶股票應用界面的手機 (聚合排序)	Shenzhen Futu	2018300029600	Design Patent	January 4, 2018
21.	帶股票應用界面的手機 (滬深港通行情頁)	Shenzhen Futu	2018300029865	Design Patent	January 4, 2018
22.	帶圖形用戶界面的手機 (美股盤前盤後價)	Shenzhen Futu	2018300147698	Design Patent	January 12, 2018
23.	帶圖形用戶界面的電腦 (證券軟件開通子賬 戶)	Shenzhen Futu	2018300878886	Design Patent	March 9, 2018
24.	帶圖形用戶界面的電腦 (證券軟件的賬戶管 理)	Shenzhen Futu	2018300878903	Design Patent	March 9, 2018
25.	帶圖形用戶界面的手機 (自選股票列表標識及 快捷操作)	Shenzhen Futu	201830088147X	Design Patent	March 9, 2018
26.	帶圖形用戶界面的電腦 (證券軟件授權賬戶)	Shenzhen Futu	2018300937899	Design Patent	March 14, 2018
27.	帶圖形用戶界面的手機 (港股ADR行情)	Shenzhen Futu	2018301819283	Design Patent	April 27, 2018
28.	帶圖形用戶界面的手機 (美股盤前盤後數據)	Shenzhen Futu	2018302090694	Design Patent	May 9, 2018
29.	帶圖形用戶界面的手機 (交易下單頁)	Shenzhen Futu	201830209082X	Design Patent	May 9, 2018
30.	手機的圖形用戶界面(牛 牛圈個人主頁)	Shenzhen Futu	2018302241976	Design Patent	May 16, 2018
31.	手機的圖形用戶界面(牛 牛圈通知)	Shenzhen Futu	2018302244601	Design Patent	May 16, 2018
32.	手機的圖形用戶界面(牛 牛圈帖子)	Shenzhen Futu	2018302246240	Design Patent	May 16, 2018

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
33.	手機的圖形用戶界面(牛 牛圈動態)	Shenzhen Futu	2018302347063	Design Patent	May 21, 2018
34.	帶圖形用戶界面的電腦 (大市成交統計)	Shenzhen Futu	2018303381663	Design Patent	June 28, 2018
35.	帶圖形用戶界面的電腦 (證券軟件自選列表)	Shenzhen Futu	2018303383160	Design Patent	June 28, 2018
36.	帶圖形用戶界面的電腦 (滬深港通熱點)	Shenzhen Futu	2018303385537	Design Patent	June 28, 2018
37.	帶圖形用戶界面的電腦 (證券軟件氣泡圖)	Shenzhen Futu	2018303397197	Design Patent	June 28, 2018
38.	帶圖形用戶界面的電腦 (牛熊證街貨分布)	Shenzhen Futu	2018303408562	Design Patent	June 28, 2018
39.	帶圖形用戶界面的手機 (發表工具欄)	Shenzhen Futu	2018304067279	Design Patent	July 26, 2018
40.	帶圖形用戶界面的手機 (股票報價條圖標)	Shenzhen Futu	2018304067940	Design Patent	July 26, 2018
41.	帶圖形用戶界面的手機 (模塊排序)	Shenzhen Futu	2018304068360	Design Patent	July 26, 2018
42.	帶圖形用戶界面的電腦 (淨買入賣出經紀商)	Shenzhen Futu	2018304999818	Design Patent	September 6, 2018
43.	帶圖形用戶界面的手機 (多類型股票K線圖)	Shenzhen Futu	2018305002290	Design Patent	September 6, 2018
44.	帶圖形用戶界面的手機 (股票走勢圖多副圖)	Shenzhen Futu	2018305003749	Design Patent	September 6, 2018
45.	帶圖形用戶界面的電腦 (成交統計逐筆成交)	Shenzhen Futu	2018305004949	Design Patent	September 6, 2018
46.	帶圖形用戶界面的電腦 (交易數量快捷選擇)	Shenzhen Futu	2018305010210	Design Patent	September 6, 2018
47.	帶圖形用戶界面的手機 (輪證大市成交統計)	Shenzhen Futu	2018305070423	Design Patent	September 10, 2018
48.	帶圖形用戶界面的電腦	Shenzhen Futu	201930151844X	Design Patent	April 4, 2019
49.	用於手機的圖形用戶界 面(股票形態解讀)	Shenzhen Futu	2019301518473	Design Patent	April 4, 2019
50.	用於電腦的圖形用戶界 面	Shenzhen Futu	2019301518488	Design Patent	April 4, 2019
51.	用於手機的圖形用戶界 面(智能盯盤)	Shenzhen Futu	2019301518505	Design Patent	April 4, 2019
52.	用於手機的圖形用戶界 面(股票指標解讀)	Shenzhen Futu	2019301518609	Design Patent	April 4, 2019

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
53.	用於電腦的圖形用戶界面	Shenzhen Futu	2019301518613	Design Patent	April 4, 2019
54.	用於電腦的圖形用戶界面	Shenzhen Futu	2019301523908	Design Patent	April 4, 2019
55.	用於設備的圖形用戶界面(技術指標解讀)	Shenzhen Futu	2019301898190	Design Patent	April 23, 2019
56.	用於設備的圖形用戶界面(籌碼分布)	Shenzhen Futu	2019301898256	Design Patent	April 23, 2019
57.	用於設備的圖形用戶界面(智能盯盤)	Shenzhen Futu	2019301903517	Design Patent	April 23, 2019
58.	用於設備的圖形用戶界面(股票提醒)	Shenzhen Futu	2019301934515	Design Patent	April 24, 2019
59.	用於手機的圖形用戶界面(卡券中心)	Shenzhen Futu	2019302280481	Design Patent	May 10, 2019
60.	帶圖形用戶界面的電腦(到價提醒)	Shenzhen Futu	2019304178045	Design Patent	August 2, 2019
61.	帶圖形用戶界面的電腦(走勢圖籌碼分布)	Shenzhen Futu	2019304178115	Design Patent	August 2, 2019
62.	帶圖形用戶界面的手機(籌碼分布)	Shenzhen Futu	2019304178539	Design Patent	August 2, 2019
63.	用於電腦顯示器的圖形用戶界面	Shenzhen Futu	2019304178558	Design Patent	August 2, 2019
64.	用於設備的圖形用戶界面(輿情指數)	Shenzhen Futu	2019304178666	Design Patent	August 2, 2019
65.	用於手機的圖形用戶界面(深度擺盤)	Shenzhen Futu	2019304178670	Design Patent	August 2, 2019
66.	帶有反映用戶交易行為圖形用戶界面的手機	Shenzhen Futu	2019304391578	Design Patent	August 13, 2019
67.	帶股票篩選動態圖形用戶界面的電腦	Shenzhen Futu	2019304395583	Design Patent	August 13, 2019
68.	帶圖形用戶界面的電腦(條件交易)	Shenzhen Futu	2019304395600	Design Patent	August 13, 2019
69.	帶圖形用戶界面的電腦(批量導入自選股)	Shenzhen Futu	2019304395649	Design Patent	August 13, 2019
70.	帶資訊展示圖形用戶界面的手機	Shenzhen Futu	2019305455844	Design Patent	October 8, 2019
71.	帶圖形用戶界面的手機(成交統計)	Shenzhen Futu	2019305983718	Design Patent	October 31, 2019

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
72.	帶有討論展示股票信息圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019306067808	Design Patent	November 5, 2019
73.	帶公司估值動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019306219139	Design Patent	November 12, 2019
74.	帶股票分析動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019306363924	Design Patent	November 19, 2019
75.	帶畫線管理動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019306476119	Design Patent	November 22, 2019
76.	帶圖表管理動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019307205398	Design Patent	December 23, 2019
77.	帶交易記錄動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2019307211825	Design Patent	December 23, 2019
78.	帶估值分析動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020300017174	Design Patent	January 2, 2020
79.	帶期貨交易動態圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020300313017	Design Patent	January 16, 2020
80.	帶多股同列顯示動態圖形用戶界面的顯示面板	Shenzhen Futu	2020300494027	Design Patent	February 11, 2020
81.	帶直播間查看圖形用戶界面的顯示屏幕面板	Shenzhen Futu	202030168802X	Design Patent	April 22, 2020
82.	帶預約和提問圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020301757176	Design Patent	April 24, 2020
83.	顯示屏幕面板的交易統計圖形用戶界面	Shenzhen Futu	2020301975378	Design Patent	May 6, 2020
84.	顯示屏幕面板的盈虧判斷圖形用戶界面	Shenzhen Futu	202030197540X	Design Patent	May 6, 2020
85.	顯示屏幕面板的持倉統計圖形用戶界面	Shenzhen Futu	2020301981595	Design Patent	May 6, 2020
86.	顯示屏幕面板的期貨下單圖形用戶界面	Shenzhen Futu	2020302347342	Design Patent	May 20, 2020

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
87.	顯示屏幕面板的社交窗口圖形用戶界面	Shenzhen Futu	2020302424194	Design Patent	May 22, 2020
88.	顯示屏幕面板的榜單排行圖形用戶界面	Shenzhen Futu	2020302434020	Design Patent	May 22, 2020
89.	顯示屏幕面板的期權查看圖形用戶界面	Shenzhen Futu	2020303280744	Design Patent	June 23, 2020
90.	顯示屏幕面板的自選列表操作圖形用戶界面	Shenzhen Futu	2020303324047	Design Patent	June 24, 2020
91.	顯示屏幕面板的證券信息查看圖形用戶界面	Shenzhen Futu	2020303360946	Design Patent	June 28, 2020
92.	顯示屏幕面板的行情對比圖形用戶界面	Shenzhen Futu	202030336523X	Design Patent	June 28, 2020
93.	顯示屏幕面板的Tick圖查看圖形用戶界面	Shenzhen Futu	2020304916259	Design Patent	August 25, 2020
94.	帶筆記生成圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020306796209	Design Patent	November 10, 2020
95.	帶行情查看圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020307220899	Design Patent	November 26, 2020
96.	帶資訊播報圖形用戶界面的顯示屏幕面板	Shenzhen Futu	2020307220969	Design Patent	November 26, 2020
97.	一種基於視頻識別的身份認證方法及其系統	Shenzhen Futu	15107862.3 (Hong Kong)	Invention Patent	November 24, 2014
98.	基於Canvas和WebWorker的像素差逐幀動畫的實現方法	Shenzhen Futu	16110076.8 (Hong Kong)	Invention Patent	August 24, 2016
99.	提醒任務的觸發方法、系統、終端設備及存儲介質	Shenzhen Futu	2019113116827	Invention Patent	December 18, 2019
100.	一種用於股票交易系統的財報信息展示方法	Shenzhen Futu	2018108360395	Invention Patent	July 26, 2018
101.	一種社區內容智能排序估算方法	Shenzhen Futu	2018100880279	Invention Patent	January 30, 2018
102.	一種用於可變寬度軟件界面的按鈕控件自適應布設方法	Shenzhen Futu	2018100535781	Invention Patent	January 19, 2018
103.	一種基於股票走勢的客戶平台	Shenzhen Futu	2018100316534	Invention Patent	January 12, 2018
104.	一種用於社區內容熱度排序的估算方法	Shenzhen Futu	2018100897500	Invention Patent	January 30, 2018

No.	Patent name	Patent Owner	Registration/ application number	Type of application	Date of registration/ application
105.	一種基於人體生物特徵 信息進行身份認證的 交易方法	Shenzhen Futu	2018108982641	Invention Patent	August 8, 2018
106.	截屏圖片的獲取方法、 裝置、終端設備及存 儲介質	Shenzhen Futu	2019111513920	Invention Patent	November 21, 2019
107.	一種IM消息傳輸方法及 終端	Shenzhen Futu	2019111146847	Invention Patent	November 14, 2019
108.	一種圖表的參考圖編輯 方法、設備和計算機 可讀存儲介質	Shenzhen Futu	2020102090120	Invention Patent	March 23, 2020
109.	目標對象消息發送裝置 及方法	Shenzhen Futu	2020102540391	Invention Patent	April 1, 2020

(c) *Copyrights*

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material in relation to our Group's business:

No.	Copyright	Owner	Registration/ application number	Date of initial publication/ application
1.	富途牛牛_港股美股實時行情與交易一體 化的股票行情交易軟件	Shenzhen Futu	2014SR166250	November 2, 2014
2.	富途牛牛_港股美股實時行情與交易的股 票行情交易軟件(Android版)	Shenzhen Futu	2017SR612984	November 8, 2017
3.	富途牛牛_港股美股實時行情與交易的股 票行情交易軟件(iOS版)	Shenzhen Futu	2017SR615640	November 9, 2017
4.	交易賬戶開戶軟件V1.0	Futu Network Technology (Shenzhen) Co., Ltd. ("Futu Network")	2019SR0790982	July 30, 2019
5.	富途交易密碼保護軟件(Android)V1.0	Futu Network	2019SR0790653	July 30, 2019
6.	ESOP企業員工激勵系統V1.0	Futu Network	2019SR0790662	July 30, 2019
7.	賬戶風險狀態系統V1.0	Futu Network	2019SR0791388	July 30, 2019
8.	開戶見證軟件(Android)V1.0	Futu Network	2019SR0791355	July 30, 2019
9.	理財產品購買軟件V1.0	Futu Network	2019SR0791351	July 30, 2019
10.	碎股交易系統V1.0	Futu Network	2019SR0791586	July 30, 2019
11.	富途交易密碼保護軟件(iOS)V1.0	Futu Network	2019SR0790701	July 30, 2019

No.	Copyright	Owner	Registration/ application number	Date of initial publication/ application
12.	ESOP數據管理系統V1.0	Futu Network	2019SR0846881	August 14, 2019
13.	開戶見證軟件(iOS)V1.0	Futu Network	2019SR0855416	August 16, 2019
14.	moomoo證券交易軟件	Shenzhen Futu	2019SR1275212	December 4, 2019
15.	富途A股通軟件	Shenzhen Futu	2020SR0200520	March 2, 2020
16.	富途牛牛美股LV2深度擺盤軟件系統	Shenzhen Futu	2020SR0214975	March 5, 2020
17.	ESOP在線簽署系統	Shenzhen Futu	2020SR0250081	March 13, 2020
18.	企業信息展示與自助投訴軟件	Shenzhen Futu	2020SR0638632	June 17, 2020
19.	富途安逸ESOP長期激勵員工端窗口期查詢軟件	Shenzhen Futu	2020SR0638640	June 17, 2020
20.	富途暗盤交易系統	Shenzhen Futu	2020SR0735014	July 7, 2020
21.	期貨波動率分析軟件	Futu Network	2020SR0735024	July 7, 2020
22.	富途安逸ESOP權限管理系統	Futu Network	2020SR0735204	July 7, 2020
23.	富途牛牛社交個性化推薦軟件	Futu Network	2020SR1079615	September 10, 2020
24.	象象形象2D系列	Shenzhen Futu	國作登字-2021- F-01242383	January 19, 2021
25.	象象形象	Shenzhen Futu	國作登字-2021- F-01242384	January 19, 2021

(d) Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner	Expiry date (dd/mm/yyyy)
1.	futuholdings.com	Futu Holdings Limited	November 25, 2027
2.	futuhk.com	Futu Securities International (Hong Kong) Limited	March 1, 2027
3.	moomoo.com	Futu Holdings Limited	November 30, 2027
4.	fututrade.com	Moomoo Financial Inc.	May 2, 2028
5.	futusg.com	Moomoo Financial Singapore	May 24, 2027
6.	futuie.com	Futu Network Technology Limited	May 3, 2029
7.	futuniuniu.com	Shenzhen Futu	December 5, 2027
8.	futunn.com	Shenzhen Futu	December 5, 2027

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' Service Contracts and Appointment Letters****(a) Executive Directors**

Each of our executive Directors has entered into a service contract with our Company for a term of three years.

(b) Non-executive Directors

Each of our non-executive Directors has entered into a letter of appointment with our Company for a term of three years.

(c) Independent Non-executive Directors

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years.

Except as aforesaid, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

2. Remuneration of Directors

For details of the Directors' remuneration, see "Directors and Senior Management — Directors' Remuneration."

3. Disclosure of Interests**(a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the Introduction**

Immediately following completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date), the interests and/or short positions (as applicable) of our Directors and chief executives in the Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or

which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interest in Shares and Underlying Shares of our Company

<u>Name of director/ chief executive</u>	<u>Nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of interest in each class of Shares of our Company immediately after the Introduction⁽¹⁾</u>
Mr. Li ⁽²⁾	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	164,000,000 Class A Ordinary Shares ⁽²⁾	18.76%
	Beneficial interest	86,568 Class A Ordinary Shares	0.01%
	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	239,750,000 Class B Ordinary Shares ⁽²⁾	100.00%
Nineway Jie Zhang	Interest in controlled corporations/founder of a discretionary trust/beneficiary of a trust	3,336,000 Class A Ordinary Shares ⁽³⁾	0.38%
Shan Lu	Beneficial interest	1,442,720 Class A Ordinary Shares	0.17%
Yijiang Wang	Beneficial interest	760 Class A Ordinary Shares	0.00%

Notes:

- (1) The calculations are made assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date. This table also excludes Class A Ordinary Shares issued to our depository bank (as of the Latest Practicable Date) for bulk issuance of ADS reserved for future issuance upon the exercise or vesting of awards granted under the Share Incentive Plans.

- (2) 202,812,500 Class B Ordinary Shares and 100,000,000 Class A Ordinary Shares (of which 50,000,000 Class A Ordinary Shares are in the form of ADSs) are held by Lera Ultimate Limited, a BVI business company, and 36,937,500 Class B Ordinary Shares and 64,000,000 Class A Ordinary Shares are held by Lera Infinity Limited, a BVI business company. Lera Ultimate Limited is ultimately owned by Lera Direction Plus Trust and Lera Infinity Limited is ultimately owned by Lera Target Trust. Lera Direction Plus Trust and Lera Target Trust were established by Mr. Li (as the settlor) for the benefit of Mr. Li and his family. Mr. Li has the sole 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. Mr. Li is deemed to be interested in the Shares held by Lera Ultimate Limited and Lera Infinity Limited.
- (3) 3,336,000 Class A Ordinary Shares are held by Diamond Orbit Investments Limited, a BVI business company ultimately owned by Nineway Family Trust. Mr. Nineway Jie Zhang (“Mr. Zhang”) is the settlor of Nineway Family Trust. Nineway Family Trust was established by Mr. Zhang (as the settlor) for the benefit of Mr. Zhang and his family. Mr. Zhang 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 Diamond Orbit Investments Limited in our Company. Mr. Zhang is deemed to be interested in the Shares held by Diamond Orbit Investments Limited.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

For information on the persons who will, immediately following the completion of the Introduction and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, please see the section headed “Substantial Shareholders.”

4. Disclaimers

Save as disclosed in this document:

- (a) none of the Directors or the experts named in the section headed “— E. Other Information — 4. Consents of Experts” below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this document;

- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;
- (d) taking no account of any Shares which may be allotted and issued pursuant to the Share Incentive Plans, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Introduction, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (e) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

D. SHARE INCENTIVE PLANS

1. 2014 Plan

Summary

The Company will not issue any options under the 2014 Plan, which was approved by the Board in October 2014 and amended and reinstated on November 30, 2018, until the 2014 Plan is amended to comply with Chapter 17 of the Listing Rules. The Board is permitted to make the necessary amendments to the 2014 Plan under the terms of such plan to comply with Chapter 17 of the Listing Rules and, have approved such amendments to take effect immediately upon the Listing. The principal terms of the 2014 Plan, as amended, are as described below.

We have applied to the Stock Exchange for, a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules. See “Waivers — Waiver in relation to the 2014 Plan and 2019 Plan” in this document for more information. We have also applied to the Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the

Listing Rules, so that the Company may, after the Listing, continue to grant options with exercise prices based on the market price of the ADSs as traded on the Nasdaq instead of the closing price of the Class A Ordinary Shares as stated in the Stock Exchange's daily quotation sheet. See "Waivers — Exercise price of options to be granted pursuant to the 2014 Plan and the 2019 Plan after the Listing" in this document for more information.

(a) Purpose

The purpose of the 2014 Plan is to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business.

(b) Who may join

We may grant awards to, among others, our officers, employees, directors and consultants of our company.

(c) Maximum number of Class A Ordinary Shares

The maximum number of Ordinary Shares that may be delivered pursuant to Awards granted under the 2014 Plan will not exceed 135,032,132 shares in the aggregate. As of the Latest Practicable Date, the Company may issue awards representing a maximum number of 15,204,212 underlying Class A Ordinary Shares under the 2014 Plan, comprising (i) 10,386,058 underlying Class A Ordinary Shares of outstanding options granted but not yet exercised; and (ii) 4,818,154 underlying Class A Ordinary Shares which may be further issued under the 2014 Plan.

(d) Administration

Our Board or a committee of one or more members appointed by our Board or another committee within its delegated authority by our Board will administer the 2014 Plan. Subject to the terms of the 2014 Plan and in the case of the committee, the specific duties delegated by our Board 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.

(e) Type of Awards

The 2014 Plan permits the awards of options approved by the plan administrator.

(f) Award agreement

Awards granted under the 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.

(g) Vesting schedule

In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

(h) 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.

(i) Transfer restrictions

Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 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.

(j) Termination and amendment

Unless terminated earlier, the 2014 Plan has a term of ten years. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Outstanding options granted

For the detailed information regarding outstanding options granted under the 2014 Plan, please see the sub-section headed “— Outstanding options and RSUs granted under the 2014 Plan and the 2019 Plan” below.

2. The 2019 Plan

Summary

The Company will not issue any options under the 2019 Plan, which was approved by the Board in December 2018, until the 2019 Plan is amended to comply with Chapter 17 of the Listing Rules. The Board is permitted to make the necessary amendments to the 2019 Plan under the terms of such plan to comply with Chapter 17 of the Listing Rules and have approved such amendments to take effect immediately upon the Listing. The principal terms of the 2019 Plan, as amended, are as described below.

We have applied to the Stock Exchange and the SFC, respectively for, a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules. See “Waivers — Waiver in relation to the 2014 Plan and 2019 Plan” in this document for more information. We have also applied to the Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules, so that the Company may, after the Listing, continue to grant options with exercise prices based on the market price of the ADSs as traded on the Nasdaq instead of the closing price of the Class A Ordinary Shares as stated in the Stock Exchange’s daily quotation sheet. See the sub-section headed “Waivers — Exercise price of options to be granted pursuant to the 2014 Plan and the 2019 Plan after the Listing” in this document for more information.

(a) Purpose

The purpose of the 2019 Plan is to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business.

(b) Who may join

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.

(c) Maximum number of Class A Ordinary Shares

The 2019 Plan contained an “evergreen” feature which provided that the 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 the 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 the 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 (the “**Evergreen Feature**”). The Board approved the amendment of the relevant term of the 2019 Plan on December 21, 2022 such that the Evergreen Feature is removed with effect from the Listing.

The Board further approved that, upon the removal of the Evergreen Feature, the maximum aggregate number of Shares which may be issued pursuant to all awards (including options) under the 2019 Plan shall be 86,662,357 Class A Ordinary Shares, which was initially reserved and subsequently increased by the Board in accordance with the Evergreen Feature with reference to approximately 2% of the number of issued and outstanding Shares as of September 29, 2019, 2020, 2021 and 2022, respectively, and represented approximately 7.78% of the issued share capital of the Company as of the date of Listing (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date). Notwithstanding such maximum aggregate cap, the total number of Shares which may be issued in respect of all awards and options that may be granted under the 2019 Plan and any other share option or award scheme involving the issue or grant of options or award over Class A Ordinary Shares shall not in aggregate exceed 10% of the issued share capital of the Company as of the date of Listing, unless otherwise permitted by the applicable laws (including the Listing Rules) or the Company obtains the approval of its shareholders to refresh such scheme mandate limit in accordance with the relevant terms of the 2019 Plan. Based on the above and assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, 85,560,949 Class A Ordinary Shares may be further issued under the 2019 Plan.

(d) Administration

Our Board or a committee designated by the Board 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.

(e) Type of Awards

The 2019 Plan permits the awards of options, restricted shares, restricted share units (“**RSU**”), or any other type of awards that the committee decides.

(f) 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.

(g) Vesting Schedule

In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

(h) 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.

(i) Amendment and termination

Unless terminated earlier, the 2019 Plan has a term of ten years. Our Board has the authority to amend, modify or terminate the 2019 Plan. However, unless the Company decides to follow home country practice, shareholders' approval for amendment of the 2019 Plan is required (i) to the extent necessary and desirable to comply with applicable laws and regulations; or (ii) the number of Shares available under the Plan is increased (other than any adjustment permitted under the terms of the 2019 Plan).

Outstanding options and RSUs granted

For the detailed information regarding outstanding options and RSUs granted under the 2019 Plan, please see the sub-section headed “— Outstanding options and RSUs granted under the 2014 Plan and the 2019 Plan” below.

3. Outstanding options and RSUs granted under the 2014 Plan and the 2019 Plan

2014 Plan

As of the Latest Practicable Date, the number of underlying Shares pursuant to the outstanding options granted under the 2014 Plan amounted to 10,386,058 Class A Ordinary Shares, representing approximately 0.93% of the total number of Shares in issue immediately after completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date). Of the 10,386,058 options, 1,987,918 have vested and 8,398,140 remain unvested as of the Latest Practicable Date. As at the Latest Practicable Date, we had conditionally granted options to 241 participants under the 2014 Plan. All the options under the 2014 Plan were granted between July 1, 2015 and July 1, 2021 (both days inclusive). The exercise price of all the options granted under the 2014 Plan is in the range of nil to US\$1.5 per Class A Ordinary Share.

2019 Plan

As of the Latest Practicable Date, there is no outstanding options granted under the 2019 Plan.

As of the Latest Practicable Date, the number of underlying Shares pursuant to the outstanding RSUs granted under the 2019 Plan amounted to 18,158,160 Class A Ordinary Shares, representing approximately 1.63% of the total number of Shares in issue immediately after completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date). Of the outstanding RSUs amounted to 18,158,160 Class A Ordinary Shares, none of them has vested and 18,158,160 remain unvested as of the Latest Practicable Date. The RSUs were granted to 866 participants on between October 5, 2020 and August 1, 2022 (both days inclusive).

As of the Latest Practicable Date, no restricted share has been granted under the 2019 Plan.

Assuming full vesting and exercise of all outstanding options and RSUs (as the case may be) granted under the 2014 Plan and 2019 Plan, the shareholding of our Shareholders immediately following completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date) will be diluted by approximately 2.5%. The dilution effect on our earnings per Share for the six months ended June 30, 2022 would be approximately 2.4%.

Upon the Listing, the Company may grant further awards representing a total of 72,220,943 Class A Ordinary Shares pursuant to the 2014 Plan and the 2019 Plan. Assuming full issue of all Shares reserved but not yet issued under the 2014 Plan and 2019 Plan, the shareholding of our Shareholders immediately following completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date) will be diluted by approximately 6.1%. The dilution effect on our earnings per Share for the six months ended June 30, 2022 would be approximately 5.9%.

In compliance with Rule 17.03 of the Listing Rules, among the Company's total issued capital of 1,114,054,359 Shares immediately following the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date), only up to 111,405,435, representing approximately 10% of the issued share capital of the Company immediately after completion of the Introduction, may be issued in respect of all options and awards to be granted under the 2014 Plan, the 2019 Plan and any other schemes of the Company (if any).

Below is a list of the grantee of the outstanding options under the 2014 Plan and the 2019 Plan who is the connected person of the Company. Other than the connected person of the Company listed below, none of the grantees under the 2014 Plan and the 2019 Plan is a connected person of the Company.

Name	Role	Address	Date of grant	Expiry date	Vesting period ⁽³⁾	Share Incentive Plans	Exercise price per Share Class A Ordinary Share	Number of Class A Ordinary Share outstanding	Approximate %	Approximate %
									of issued shares immediately after completion of the Introduction ⁽¹⁾	of voting rights immediately after completion of the Introduction ⁽²⁾
Mr. Arthur Yu Chen . . .	Chief Financial Officer	11/F, Bangkok Bank Building, No. 18 Bonham Strand West, Sheung Wan, Hong Kong	November 8, 2018	October 30, 2024	5 years	2014 Plan	0.3	1,000,000	0.09	0.03
Total: . . .	One grantee							<u>1,000,000</u>	<u>0.09%</u>	<u>0.03%</u>

The table below shows the details of the outstanding options granted to other grantees (who are not connected persons of the Company) under the 2014 Plan and the 2019 Plan:

Category by number of underlying Class A Ordinary Shares	Number of grantees	Date of Grant	Expiry Date	Vesting period ⁽³⁾	Exercise price per Class A Ordinary Share (US\$)	Number of Class A Ordinary Share outstanding	Approximate % of issued shares immediately after completion of the Introduction ⁽¹⁾	Approximate % of voting rights immediately after completion of the Introduction ⁽²⁾
1 to 100,000 . . .	233	July 1, 2017 to July 1, 2021 (both days inclusive)	November 30, 2024 to June 30, 2031 (both days inclusive)	4-5 years	0-1.5	6,698,602	0.60%	0.20%
100,000 to 500,000 . . .	5	July 1, 2017 to July 1, 2021 (both days inclusive)	November 30, 2024 to June 30, 2031 (both days inclusive)	4-5 years	0-1.5	999,456	0.09%	0.03%
500,000 to 1,000,000 . . .	2	July 1, 2017 to July 1, 2021 (both days inclusive)	November 30, 2024 to June 30, 2031 (both days inclusive)	4-5 years	0-1.5	1,688,000	0.15%	0.05%
Total:	240					9,386,058	0.84%	0.29%

Notes:

- (1) The calculation is made assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date.
- (2) The calculation is made assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, no Class B Ordinary Shares are converted into Class A Ordinary Shares. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry ten votes per share in relation to resolutions at the general meetings of the Company upon the Listing, except for resolutions with respect to the Reserved Matters for which each Share entitles each Shareholder to one vote per share.
- (3) The exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the relevant Share Incentive Plan and the share option award agreement signed by the grantee.

As at the Latest Practicable Date, RSUs granted to 866 grantees to subscribe for 18,158,160 Class A Ordinary Shares were outstanding, representing approximately 1.63% of our Company's total issued share capital immediately after completion of the Introduction (assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date) for which the grantees include five Directors or connected persons of the Company (with respect to 766,080 underlying Class A Ordinary Shares) and 861 other employees of our Group (with respect to an aggregate of 17,392,080 underlying Class A Ordinary Shares).

Save as disclosed herein, no awards have been granted to any Directors, connected persons of our Company and other employees of our Group or their affiliates or other eligible persons pursuant to the 2019 Plan.

The table below shows the details of the outstanding RSUs granted to Directors and other grantee (who is not a Director or connected person of the Company) under the 2019 Plan:

Category by number of underlying Class A Ordinary Shares	Number of grantees	Date of Grant	Vesting period	Number of Class A Ordinary Share outstanding	Approximate % of issued shares immediately after completion of the Introduction ⁽¹⁾	Approximate % of voting rights immediately after completion of the Introduction ⁽²⁾
1 to 20,000	575	October 5, 2020 to August 1, 2022 (both days inclusive)	4 to 5 years	5,638,920	0.51%	0.17%
20,000 to 100,000	276	October 5, 2020 to August 1, 2022 (both days inclusive)	5 years	9,610,992	0.86%	0.29%
100,000 to 450,000	15	October 5, 2020 to August 1, 2022 (both days inclusive)	5 years	2,908,248	0.26%	0.09%
Total:	866			18,158,160	1.63%	0.55%

Notes:

- (1) The calculation is made assuming no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date.
- (2) The calculation is made assuming that no further Shares are issued under the Share Incentive Plans between the Latest Practicable Date and the Listing Date, no Class B Ordinary Shares are converted into Class A Ordinary Shares. The percentage takes into account the weighted voting rights of the Class B Ordinary Shares, which carry ten (10) votes per share in relation to resolutions at the general meetings of the Company upon Listing, except for resolutions with respect to the Reserved Matters for which each Share entitles each Shareholder to one vote per share.

E. OTHER INFORMATION**1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this document and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, (i) the Class A Ordinary Shares in issue; (ii) the Class A Ordinary Shares which may be issued pursuant to the Share Incentive Plans; and (iii) the Class A Ordinary Shares that are issuable upon conversion of the Class B Ordinary Shares on the Main Board of the Stock Exchange.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Each Joint Sponsor will receive a fee of US\$1,500,000 for acting as the sponsor for the Listing.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

<u>Name</u>	<u>Qualification</u>
Goldman Sachs (Asia) L.L.C. . . .	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), and type 9 (asset management) of the regulated activities as defined under the SFO

Name	Qualification
UBS Securities Hong Kong Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities as defined under the SFO
Han Kun Law Offices and CM Law Firm	Legal advisor to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal advisor to Company as to Cayman Islands law
PricewaterhouseCoopers	Certified Public Accountant under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)
	Registered Public Interest Entity Auditor under the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
China Insights Industry Consultancy Limited	Industry consultant

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries and Consolidated Affiliated Entities or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

6. Preliminary Expenses

The Company did not incur any material preliminary expenses.

7. Other Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
- (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or shares as fully or partly paid otherwise than in cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted, have been paid or are payable in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries; and
 - (iii) taking no account of any Shares which may be allotted and issued pursuant to the Share Incentive Plans, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Introduction (without taking into account any outstanding options under the Share Incentive Plans), have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.
- (b) Save as disclosed in this document:
- (i) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Listing and the related transactions described in this document;
 - (ii) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
 - (iii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iv) none of the Directors or the experts named in the part headed “— Other information — Consents of experts” above has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (v) there is no arrangement under which future dividends are waived or agreed to be waived;
- (vi) our Company has no outstanding convertible debt securities or debentures;
- (vii) we do not have any issued and outstanding, authorized or otherwise created but unissued debt securities or term loans;
- (viii) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (ix) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position in the last 12 months preceding the date of this document; and
- (x) none of the Directors are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at ir.futuholdings.com during a period of 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the Accountant's Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices IA and II;
- (c) the audited consolidated financial statements of our Company for the three years ended December 31, 2019, 2020 and 2021;
- (d) the report on the unaudited interim condensed consolidated financial information for the nine-month period ended September 30, 2022 from PricewaterhouseCoopers, the text of which is set out in Appendix IB;
- (e) the PRC legal opinions issued by Han Kun Law Offices and CM Law Firm, our legal advisors as to PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing the constitution of the Company and certain aspects of the Cayman Islands law referred to in Appendix III;
- (g) the Cayman Companies Act;
- (h) the industry report issued by China Insights Industry Consultancy Limited, the summary of which is set forth in the section headed "Industry Overview";
- (i) the written consents referred to under the section headed "Statutory and General Information — E. Other Information — 4. Consents of Experts" in Appendix IV;
- (j) the material contracts referred to in "Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix IV;
- (k) the service contracts and the letters of appointment with our Directors referred to in "Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors' service contracts and appointment letters" in Appendix IV; and
- (l) the terms of the Share Incentive Plans.

DOCUMENT AVAILABLE FOR INSPECTION

A copy of a full list of Grantees under the Share Incentive Plans, containing all details as required under the Listing Rules, will be available for inspection at the Company's principal place of business in Hong Kong at 11/F, Bangkok Bank Building, No. 18 Bonham Strand West, Sheung Wan, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document.

