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 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.

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.

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 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 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

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.

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.

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.

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.

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.

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 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 aware 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.

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 total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount		% of total revenue
	HK$		HK$		HK$		HK$		HK$	US$	
	(in thousands except for percentages)						*(unaudited)*				
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**

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		
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount		% of total revenue
	HK$		HK$		HK$		HK$		HK$	US$	
	(in thousands except for percentages)										
							(unaudited)				
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."

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$*
			(in thousands)			
				(unaudited)		
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 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	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*US$*
			(in thousands)			
				(unaudited)		
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.

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 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$*	
	(in thousands except for percentages)										
							(unaudited)				
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.

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**	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*US$*
	(in thousands except for percentages)					
				(unaudited)		
Gross profit	**779,851**	**2,614,868**	**5,909,256**	**3,059,468**	**2,951,881**	**376,169**
Gross profit margin	**73.4%**	**79.0%**	**83.1%**	**80.9%**	**87.1%**	

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.

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$*	*%*
	(in thousands except for percentages)										
							(unaudited)				
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.

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.

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$	
	(in thousands except for percentages)										
							(unaudited)				
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.

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 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.

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.

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.

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.

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.

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.

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.

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.

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$*	*US$*
			(in thousands)		
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	**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**
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	**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**
Total shareholders' equity	2,548,553	8,307,690	20,985,559	19,552,820	2,491,694
Total liabilities and shareholders' equity	**21,399,924**	**71,337,767**	**101,538,514**	**109,758,280**	**13,986,936**

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.

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$*	*US$*
				(in thousands)			
						(unaudited)	
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**

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.

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**
	(HK$ in thousands)			*(HK$ in thousands)*
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.

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.

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	
	HK$	*HK$*	*HK$*	*HK$*	*US$*
			(in thousands)		
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.

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.

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

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

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.

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.

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
	(HK$ in thousands)		
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. 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	
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*US$*
			(in thousands)			
				(unaudited)		
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**

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 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.

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
	(HK$ in thousands)				
				(unaudited)	
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	**(89,799)**	**1,296,841**	**2,714,655**	**1,672,324**	**1,131,314**

	As of December 31,			As of June 30,
	2019	**2020**	**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(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	**2,541,920**	**8,291,884**	**20,950,427**	**19,510,644**

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.

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**
	(HK$ in thousands)				
					(unaudited)
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**

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**
	(HK$ in thousands)				
					(unaudited)
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	**1,467,586**	**5,482,818**	**6,357,405**	**4,353,919**	**2,860,000**

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.

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.

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,						
	Total		**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**
	HK$	*US$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
	(in thousands)						
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.

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.

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.

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.

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 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.

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.

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
	HK$'000	*HK$'000*	*HK$'000*	*HK$(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 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.

(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."

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.

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	
	HK$	*HK$*	*US$*
		(in thousands)	
	(unaudited)	*(unaudited)*	*(unaudited)*
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	**5,512,511**	**5,333,308**	**679,420**
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	**(989,211)**	**(653,962)**	**(83,309)**
Total gross profit	**4,523,300**	**4,679,346**	**596,111**
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	**(1,900,940)**	**(2,231,107)**	**(284,225)**

	For the Nine months ended September 30,		
	2021	2022	
	HK$	HK$	US$
		(in thousands)	
	(unaudited)	(unaudited)	(unaudited)
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.

- *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.

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.

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**
	HK$	*HK$*	*US$*
		(in thousands)	
	(unaudited)	*(unaudited)*	*(unaudited)*
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.

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**
	(HK$ in thousands)	
	(unaudited)	*(unaudited)*
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
Net income attributable to our Company in the consolidated statements of comprehensive income as reported under IFRS	**2,259,177**	**1,856,911**

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
		(unaudited)
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.

(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.