The following is the text of a report set out on pages IB-1 to IB-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. The information set out below is the unaudited interim condensed financial information of the Group for the nine months ended September 30, 2022, and does not form part of the Accountant's Report from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix IA to this document, and is included herein for information purpose only.

pwc 羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF FUTU HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages IB-3 to IB-52, which comprises the interim condensed consolidated balance sheet of Futu Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at September 30, 2022 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in shareholders' equity and the interim condensed consolidated statement of cash flows for the nine-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with U.S. GAAP.

Other Matter

The comparative information for the interim condensed consolidated balance sheet is based on the audited financial statements as at December 31, 2021. The comparative information for the interim condensed consolidated statements of comprehensive income, changes in shareholders' equity and cash flows, and related explanatory notes, for the period ended September 30, 2021 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, December 22, 2022

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except for share and per share data)

	Note	As of December 31, 2021	As of September 30, 2022
		HK$	*HK$*
ASSETS			
Cash and cash equivalents		4,555,096	6,865,549
Cash held on behalf of clients		54,734,351	52,662,417
Term deposit		–	5,450
Restricted cash		2,065	1,870
Short-term investments	*4*	1,169,741	13,373
Securities purchased under agreements to resell		106,203	22,349
Loans and advances-current (net of allowance of HK$12,258 thousand and HK$25,913 thousand as of December 31, 2021 and September 30, 2022, respectively)	*6*	29,587,306	29,720,594
Receivables:			
Clients		469,577	271,855
Brokers		7,893,927	5,068,471
Clearing organizations		1,961,121	1,601,026
Fund management companies and fund distributors		72,340	80,584
Interest		50,829	146,338
Prepaid assets		18,306	25,711
Other current assets	*7*	81,594	110,153
Total current assets		100,702,456	96,595,740
Operating lease right-of-use assets	*5*	243,859	200,030
Long-term investments	*8*	23,394	245,724
Loans and advances – non-current	*6*	–	37,013
Other non-current assets	*7*	568,805	943,140
Total non-current assets		836,058	1,425,907
Total assets		101,538,514	98,021,647
LIABILITIES			
Amounts due to related parties	*27(b)*	87,459	53,602
Payables:			
Clients		59,127,439	54,948,151
Brokers		7,599,233	12,231,738
Clearing organizations		393,782	2,050,313
Fund management companies and fund distributors		56,690	71,143
Interest		15,359	15,340
Borrowings	*9*	6,357,405	6,547,293
Securities sold under agreements to repurchase		4,467,861	–
Operating lease liabilities – current	*5*	96,860	105,536
Accrued expenses and other current liabilities	*10*	2,176,213	1,683,822
Total current liabilities		80,378,301	77,706,938

	Note	As of December 31, 2021	As of September 30, 2022
		HK$	*HK$*
Operating lease liabilities – non-current	*5*	163,719	107,740
Other non-current liabilities	*10*	10,935	20,726
Total non-current liabilities		174,654	128,466
Total liabilities		80,552,955	77,835,404
Commitments and Contingencies (Note 26)			
SHAREHOLDERS' EQUITY			
Class A ordinary shares (US$0.00001 par value; 48,700,000,000 and 48,700,000,000 shares authorized as of December 31, 2021 and September 30, 2022, respectively; 737,944,914 and 803,555,356 shares issued and outstanding as of December 31, 2021 and September 30, 2022, respectively)	*11*	58	63
Class B ordinary shares (US$0.00001 par value; 800,000,000 and 800,000,000 shares authorized as of December 31, 2021 and September 30, 2022, respectively; 494,552,051, and 430,552,051 shares issued and outstanding as of December 31, 2021 and September 30, 2022, respectively)	*11*	38	33
Additional paid-in capital		17,935,752	18,091,374
Treasury stock (29,462,760 and 110,839,528 shares as of December 31, 2021 and September 30, 2022, respectively)	*11*	(1,178,755)	(3,975,219)
Accumulated other comprehensive income/(loss)		75,994	(50,648)
Retained earnings		4,152,472	6,120,640
Total shareholders' equity		20,985,559	20,186,243
Total liabilities and shareholders' equity		101,538,514	98,021,647

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands, except for share and per share data)

	Note	Nine months ended September 30, 2021	2022
		HK$	*HK$*
Revenues			
Brokerage commission and handling charge income	*16*	3,056,091	2,959,050
Interest income	*17*	1,900,608	2,076,484
Other income	*18*	555,812	297,774
Total revenues		5,512,511	5,333,308
Costs			
Brokerage commission and handling charge expenses	*19,22*	(484,462)	(265,795)
Interest expenses	*20*	(321,286)	(110,525)
Processing and servicing costs	*21,22*	(183,463)	(277,642)
Total costs		(989,211)	(653,962)
Total gross profit		4,523,300	4,679,346
Operating expenses			
Research and development expenses	*22*	(534,692)	(887,613)
Selling and marketing expenses	*22*	(1,055,101)	(742,692)
General and administrative expenses	*22*	(311,147)	(600,802)
Total operating expenses		(1,900,940)	(2,231,107)
Others, net		(9,691)	(219,175)
Income before income tax expenses and share of loss from equity method investment		2,612,669	2,229,064
Income tax expenses	*23*	(301,268)	(247,572)
Share of loss from equity method investment		–	(13,324)
Net income		2,311,401	1,968,168
Net income attributable to ordinary shareholders of the Company		2,311,401	1,968,168
Net income		2,311,401	1,968,168
Other comprehensive income/(loss), net of tax			
Foreign currency translation adjustment		24,084	(126,642)
Total comprehensive income		2,335,485	1,841,526
Net income per share attributable to ordinary shareholders of the Company	*14*		
Basic		1.94	1.72
Diluted		1.91	1.70
Net income per ADS			
Basic		15.50	13.72
Diluted		15.26	13.59
Weighted average number of ordinary shares used in computing net income per share	*14*		
Basic		1,192,527,761	1,147,484,439
Diluted		1,212,191,974	1,158,401,576

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except for share and per share data)

	Note	Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital	Accumulated other comprehensive (loss)/income	Retained earnings	Total equity
		Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
			HK$		*HK$*		*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
As of January 1, 2022		737,944,914	58	494,552,051	38	(29,462,760)	(1,178,755)	17,935,752	75,994	4,152,472	20,985,559
Profit for the period		–	–	–	–	–	–	–	–	1,968,168	1,968,168
Share-based compensation	*13*	–	–	–	–	–	–	148,705	–	–	148,705
Shares issued upon exercise of employee share options	*13*	1,610,448	–	–	–	–	–	6,917	–	–	6,917
Surrendered and cancellation of Class A ordinary shares		(6)	–	–	–	–	–	–	–	–	–
Share conversion from Class B to Class A	*11*	64,000,000	5	(64,000,000)	(5)	–	–	–	–	–	–
Treasury share purchases	*11*	–	–	–	–	(81,376,768)	(2,796,464)	–	–	–	(2,796,464)
Foreign currency translation adjustment, net of tax		–	–	–	–	–	–	–	(126,642)	–	(126,642)
Balance at September 30, 2022		803,555,356	63	430,552,051	33	(110,839,528)	(3,975,219)	18,091,374	(50,648)	6,120,640	20,186,243

	Note	Class A ordinary shares		Class B ordinary shares		Treasury stock purchases		Additional paid in capital	Accumulated other comprehensive (loss)/income	Retained earnings	Total equity
		Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
			HK$		*HK$*		*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
As of January 1, 2021		590,139,760	47	494,552,051	38	–	–	6,960,369	4,974	1,342,262	8,307,690
Profit for the year		–	–	–	–	–	–	–	–	2,311,401	2,311,401
Share-based compensation	*13*	–	–	–	–	–	–	64,295	–	–	64,295
Shares issued upon exercise of employee share options/restricted share units ("RSUs")	*13*	4,192,000	–	–	–	–	–	11,787	–	–	11,787
Issuance of ordinary shares	*11*	87,400,000	7	–	–	–	–	10,856,518	–	–	10,856,525
Exercise of pre-funded warrants	*11*	53,599,890	4	–	–	–	–	(4)	–	–	–
Foreign currency translation adjustment, net of tax		–	–	–	–	–	–	–	24,084	–	24,084
Balance at September 30, 2021		735,331,650	58	494,552,051	38	–	–	17,892,965	29,058	3,653,663	21,575,782

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Note	Nine months ended September 30, 2021	2022
		HK$	*HK$*
Cash flows from operating activities			
Net income		2,311,401	1,968,168
Adjustments for:			
Depreciation and amortization	22	24,730	41,046
Expected credit loss expenses		2,815	13,620
Share of loss from equity method investment		–	13,324
Impairment from other non-current assets		–	62,565
Foreign exchange (gains)/losses		(85,904)	101,528
Share-based compensation	13	64,295	148,705
Realized gain from short-term investments		–	(16,919)
Fair value losses		–	8,989
Deferred income tax benefit	23	(8,266)	(11,707)
Amortisation of right-of-use assets		61,567	65,932
Changes in operating assets:			
Net (increase)/decrease in securities purchased under agreements to resell		(10,000)	83,854
Net increase in loans and advances		(12,011,505)	(183,956)
Net (increase)/decrease in accounts receivable from clients and brokers		(3,104,633)	3,023,178
Net decrease in accounts receivable from clearing organizations		116,202	364,015
Net decrease/(increase) in accounts receivable from fund management companies and fund distributors		167,067	(8,244)
Net increase in interest receivable		(18,218)	(95,509)
Net increase in prepaid assets		(7,915)	(5,469)
Net increase in other assets		(121,226)	(464,987)
Changes in operating liabilities:			
Net (decrease)/increase in amounts due to related parties		(49,290)	4,567
Net increase in accounts payable to clients and brokers		17,468,089	453,196
Net increase in accounts payable to clearing organizations		337,671	1,656,531
Net (decrease)/increase in accounts payable to fund management companies and fund distributors		(73,172)	14,453
Net (decrease)/increase in payroll and welfare payable		(5,798)	161,408
Net increase/(decrease) in interest payable		8,151	(19)
Net decrease in operating lease liabilities		(51,469)	(71,875)
Net decrease in securities sold under agreements to repurchase		(541,530)	(4,467,861)
Net increase/(decrease) in other liabilities		731,721	(688,250)
Net cash generated from operating activities		5,204,783	2,170,283

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

	Note	Nine months ended September 30, 2021	Nine months ended September 30, 2022
		HK$	*HK$*
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(57,419)	(75,485)
Purchase of short-term investments		–	(3,377,186)
Proceeds from disposal of short-term investments		–	4,560,076
Acquisition of long-term investments		–	(235,434)
Maturity of term deposits		300,000	–
Cash paid for acquisition, net of cash acquired		–	(102,008)
Net cash generated from investing activities		242,581	769,963
Cash flows from financing activities			
Proceeds from public offering, net of issuance costs		10,856,525	–
Proceeds from exercise of employee share options		19,842	13,446
Purchase of treasury stock		–	(2,796,464)
Proceeds from other borrowings		42,974,942	55,493,584
Repayment of other borrowings		(40,515,517)	(55,296,296)
Payment of other financing expenses		(348)	(8,093)
Net cash generated from/(used in) financing activities		13,335,444	(2,593,823)
Effect of exchange rate changes on cash, cash equivalents and restricted cash		88,578	(108,099)
Net increase in cash, cash equivalents and restricted cash		18,871,386	238,324
Cash, cash equivalents and restricted cash at beginning of the period		43,521,758	59,291,512
Cash, cash equivalents and restricted cash at end of the period		62,393,144	59,529,836
Cash, cash equivalents and restricted cash			
Cash and cash equivalents		2,082,051	6,865,549
Cash held on behalf of clients		60,311,093	52,662,417
Restricted Cash		–	1,870
Cash, cash equivalents and restricted cash at end of the period		62,393,144	59,529,836
Supplemental disclosure			
Interest paid		(313,135)	(110,544)
Income tax paid		(93,707)	(309,296)
Cash paid for amounts included in operating lease liabilities		(64,955)	(81,343)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

FUTU HOLDINGS LIMITED
NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

1. GENERAL INFORMATION, ORGANIZATION AND PRINCIPAL ACTIVITIES

Futu Holdings Limited (the "Company") is an investment holding company incorporated in the Cayman Islands with limited liability and conducts its business mainly through its subsidiaries, variable interest entities ("VIEs") and subsidiaries of the VIEs (collectively referred to as the "Group"). The Group principally engages in online financial services including securities and derivative trades brokerage, margin financing and fund distribution services based on internally developed software and digital platform "Futubull" and "Moomoo". The Group also provides financial information and online community services, etc. The Company completed its IPO on March 8, 2019 on the Nasdaq Global Market. Each American Depositary Shares ("ADSs") represents eight of the Company's Class A ordinary shares.

As of September 30, 2022, the Company's principal subsidiaries, consolidated VIE are as follows:

Companies	Date of Incorporation/ Establishment/	Place of Incorporation/ Establishment	Percentage of Direct or Indirect Economic Interest	Principal Activities
Subsidiaries				
Futu Securities International (Hong Kong) Limited ("Futu Securities")	April 17, 2012	Hong Kong	100%	Financial services
Futu Securities (Hong Kong) Limited	May 2, 2014	Hong Kong	100%	Investment holding
Futu Network Technology Limited	August 17, 2015	Hong Kong	100%	Research and development and technology services
Futu Network Technology (Shenzhen) Co., Ltd.	October 14, 2015	Shenzhen, PRC	100%	Research and development and technology services
Shen Si Network Technology (Beijing) Co., Ltd. ("Shen Si")	September 15, 2014	Beijing, PRC	100%	No substantial business
Moomoo Financial Inc[(1)] (previous name: Futu Inc.)	December 17, 2015	Delaware, USA	100%	Financial services
Futu Clearing Inc.	August 13, 2018	Delaware, USA	100%	Financial services
Moomoo Financial Singapore Pte. Ltd[(1)] (previous name: Futu Singapore Pte. Ltd)	December 17, 2019	Singapore	100%	Financial services
Futu Securities (Australia) Ltd.	February 15, 2001	New South Wales, Australia	100%	Financial services
VIE				
Shenzhen Futu Network Technology Co., Ltd.[(2)] ("Shenzhen Futu")	December 18, 2007	Shenzhen, PRC	100%	Research and development and technology services

Notes:

(1) These subsidiaries changed company names in June 2022.

(2) Mr. Leaf Hua Li and Ms. Lei Li are beneficiary owners of the Company and held 85% and 15% equity interest in Shenzhen Futu, respectively. Mr. Leaf Hua Li is the founder, chairman and chief executive officer of the Company, and Ms. Lei Li is Mr. Leaf Hua Li's spouse.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of the Company, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of September 30, 2022, its results of operations and cash flows for the nine months ended September 30, 2021 and 2022. The unaudited interim condensed consolidated balance sheet as of December 31, 2021, was derived from audited financial statements as of that date, but does not contain all of the footnote disclosures required by U.S. GAAP for a complete set of financial statements. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and related footnotes for the year ended December 31, 2021. Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIEs and subsidiary of the VIEs for which the Company or its subsidiary is the primary beneficiary.

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

A consolidated VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has the power to direct the activities that most significantly impact the entity's economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. All transactions and balances among the Company, its subsidiaries, the VIEs and subsidiaries of the VIEs have been eliminated upon consolidation.

VIE Companies

(1) Contractual Agreements with VIEs

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") between the Company's PRC subsidiary, Shen Si, and the VIEs. Through the Contractual Agreements, the VIEs are effectively controlled by the Company.

Shareholders' Voting Rights Proxy Agreements. Pursuant to the Shareholders' Voting Rights Proxy Agreements, each shareholder of VIEs irrevocably authorized Shen Si or any person(s) designated by Shen Si to exercise such shareholder's rights in VIEs, including without limitation, the power to participate in and vote at shareholder's meetings, the power to nominate and appoint the directors, senior management, and other shareholders' voting right permitted by the articles of association of VIEs. The shareholders' voting rights proxy agreements remain irrevocable and continuously valid from the date of execution until the expiration of the business term of Shen Si and can be renewed upon request by Shen Si.

Business Operation Agreements. Pursuant to the Business Operation Agreements, VIEs and their shareholders undertake that without Shen Si's prior written consent, VIEs shall not enter into any transactions that may have a material effect on VIEs' assets, business, personnel, obligations, rights or business operations. VIEs and their shareholders shall elect directors nominated by Shen Si and such directors shall nominate officers designated by Shen Si. The business operation agreements will remain effective until the end of Shen Si's business term, which will be extended if Shen Si's business term is extended or as required by Shen Si.

Equity Interest Pledge Agreements. Pursuant to the Equity Interest Pledge Agreements, each shareholder of VIEs agrees that, during the term of the Equity Interest Pledge Agreements, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Shen Si. The Equity Interest Pledge Agreements remain effective until the latter of the full payment of all secured debt under the equity interest pledge agreements and VIEs and their shareholders discharge all their obligations under the contractual arrangements.

Exclusive Technology Consulting and Services Agreements. Under the Exclusive Technology Consulting and Services Agreements between Shen Si and the VIEs, Shen Si has the exclusive right to provide VIEs with technology consulting and services related to, among other things, technology research and development, technology application and implementation, maintenance of software and hardware. Without Shen Si's written consent, VIEs shall not accept any technology consulting and services covered by these agreements from any third party. VIEs agree to pay a service fee at an amount equivalent to all of its net profit to Shen Si. Unless otherwise terminated in accordance with the terms of these agreements or otherwise agreed with Shen Si, these agreements will remain effective until the expiration of Shen Si's business term, and will be renewed if Shen Si's business term is extended.

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

(2) Risks in relation to the VIE structure

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the VIEs and their subsidiary taken as a whole, which were included in the Group's consolidated financial statements with intercompany balances and transactions eliminated between the VIEs and their subsidiary:

	As of December 31,	**As of September 30,**
	2021	**2022**
	(HK$ in thousands)	
Total assets	254,602	293,717
Total liabilities	176,204	168,791

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Total operating revenue	134,812	201,216
Net income	24,520	48,110

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Net cash generated from operating activities	3,328	25,847
Net cash used in investing activities	(3,187)	–
Net cash generated from financing activities	–	8,107
Net increase in cash and cash equivalents	141	33,954
Cash and cash equivalents at beginning of the period	3,738	2,751
Cash and cash equivalents at end of the period	3,879	36,705

Transactions between the VIE and other entities in the consolidated group

As of December 31, 2021 and September 30, 2022, total assets include amounts due from internal companies in the consolidated group in the amount of HK$190,424 thousand and HK$216,696 thousand, respectively. Total liabilities include amounts due to the internal companies in the amount of HK$80,435 thousand and HK$87,483 thousand, respectively. For the nine months ended September 30, 2021 and 2022, the VIE earned inter-company revenues in the amounts of HK$118,000 thousand and HK$182,834 thousand, respectively. In addition, for the nine months ended September 30, 2021 and 2022, the repayment of advances to Group companies by the VIE are in the amount of nil and nil, and VIE proceeded from advances from Group companies in the amount of nil, HK$8,107 thousand, respectively. All of these balances and transactions have been eliminated in consolidation.

Under the Contractual Agreements with the VIEs, the Company has the power to direct activities of the VIEs and VIEs' subsidiaries, and can have assets transferred out of the VIEs and VIEs' subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIEs and there is no asset of the VIEs that can only be used to settle obligations of the VIEs and VIEs' subsidiaries, except for registered capital of the VIEs and their subsidiary amounting to RMB10 million as of December 31, 2021 and September 30, 2022, respectively. Since the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIEs. However, as the Company is conducting certain businesses through its VIEs and VIEs' subsidiary, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

In the opinion of the Company's management, the contractual arrangements among its subsidiary, the VIEs and their respective Nominee Shareholders are in compliance with current PRC laws and are legally binding and enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and VIEs' subsidiaries in the consolidated financial statements.

On March 15, 2019, the Foreign Investment Law was formally passed by the thirteenth National People's Congress and it was taken effect on January 1, 2020. The Foreign Investment Law replaces the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Cooperative Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate contractual arrangements such as those we rely on as a form of foreign investment. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors investing through any other methods under laws, administrative regulations or provisions prescribed by the State Council." Future laws, administrative regulations or provisions prescribed by the State Council may possibly regard Contractual Arrangements as a form of foreign investment. In the event that the State Council in the future promulgates laws and regulations that deem investments made by foreign investors through contractual arrangements as "foreign investment", the Group's ability to use the contractual arrangements with its VIEs and the Group's ability to conduct business through the VIEs could be severely limited.

The Company's ability to control the VIEs also depends on the power of attorney Shen Si has to vote on all matters requiring shareholders' approvals in the VIEs. As noted above, the Company believes these power of attorney are legally binding and enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure or the contractual arrangements with the VIEs were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure its operations, re-apply for the necessary licenses or relocate the Group's businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of these restrictions or actions may result in a material adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIEs or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIEs. In the opinion of management, the likelihood of losing the benefits in respect of the Group's current ownership structure or the contractual arrangements with its VIEs is remote.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenues, costs and expenses during the reported period in the consolidated financial statements and accompanying notes. These accounting estimates reflected in the Group's consolidated financial statements mainly include, but are not limited to, the estimation of the expected usage and the estimated relative standalone selling price of the incentive points and coupons, the valuation and recognition of share-based compensation arrangements, depreciable lives of property and equipment, useful life of intangible assets, expected credit losses on financial instruments, assessment for impairment of long-term investments and other non-current assets, present value for expected future leasing payment, contingency reserve, provision of income tax and valuation allowance for deferred tax asset, and valuation of financial instruments measured at fair value. Actual results could differ from those estimates.

Comprehensive Income and Foreign Currency Translation

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

Current Expected Credit Losses

Prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The identified impairment loss was immaterial prior to January 1, 2020.

On January 1, 2020, the Group adopted FASB ASC Topic 326 – "Financial Instruments – Credit Losses" ("ASC Topic 326") which replaces the incurred loss methodology with the current expected credit loss ("CECL") methodology. The new guidance applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets.

The Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no material impact on the Group's retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP. The Group's in-scope assets are primarily loans and advances that are collateralized by client securities and the collateral is required to be maintained at specified minimum levels at all times. The Group monitors margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. The Group applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances. In accordance with the practical expedient, when the Group reasonably expects that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial assets. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. For the nine months ended September 30, 2021 and 2022, expected credit loss expenses of HK$2,815 thousand and HK$13,620 thousand, resulting from the assessment of credit losses for the loans and advances under ASC Topic 326 at period-end were recognized in "Others, net" in the consolidated statements of comprehensive income, respectively.

An allowance for credit losses on other financial assets, including receivables from clients, brokers, clearing organizations and fund management companies and fund distributors, is estimated based on the aging of these financial assets.

Receivables from clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within a few days from the trade date. Because these receivables involve customers who have no recent history of default, and the settlement periods are usually short, the credit risk arising from receivables from clients is considered low. In respect of the receivables from brokers, clearing organizations and fund management companies and fund distributors, the management considers that these receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation. As a result, the allowance for credit losses for other financial assets were immaterial for all periods presented.

Cash and Cash Equivalents

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

Cash Held on Behalf of Clients

The Group has classified the clients' monies as cash held on behalf of clients under the assets section in the consolidated balance sheets and recognized the corresponding accounts payables to the respective clients under the liabilities section.

Term Deposit

Term deposit consists of bank deposits with an original maturity of greater than three months.

Restricted Cash

The Group is required to maintain restricted cash deposits for certain property leases. These funds are restricted and have been classified as such on our consolidated balance sheets due to the nature of restriction.

Short-term Investments

The Group classifies certain financial assets with highly liquidity and original maturities less than twelve months as short-term investments. The Group's short-term investments consist of money market funds and financial assets at fair value through profit or loss. The Group values its money market funds and financial assets at fair value through profit or loss using quoted prices in active markets for these investments, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Transactions involving purchases of securities under agreements to resell (resell agreements) and transactions involving sales of securities under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions.

Under resell agreements, the Group pays cash to counterparties and receives securities as collateral. These agreements are carried at amounts at which the securities will subsequently be resold, and the interest income received by the Group is recorded as interest income in the consolidated statements of comprehensive income.

Under repurchase agreements, the Group receives cash from counterparties and provides securities as collateral. These agreements are carried at amounts at which the securities will subsequently be repurchased, and the interest expense incurred by the Group is recorded as interest expenses in the consolidated statements of comprehensive income.

Loans and advances

Loans and advances include margin loans, IPO loans extended to clients and other advances, collateralized by securities and are carried at the amortized cost, net of an allowance for credit losses. Revenues earned from the loans and advances are included in interest income.

Margin loans are extended to clients on a demand basis and are not committed facilities. Securities owned by the customers, which are not recorded in the consolidated balance sheets, are held as collateral for amounts due on the margin loans.

IPO loans for subscription of new shares are normally settled within one week from the drawdown date. Once IPO stocks are allotted, the Group requires clients to repay the IPO loans. Force liquidation action would be taken if the clients fail to settle their shortfall after the IPO allotment result is announced.

Other advances mainly consist of bridge loans to enterprises which pledged unlisted or listed shares they hold as collateral.

Loans and advances are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortized cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the surplus or deficit using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The balances will be written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trading Receivables from and Payables to Clients

Trading receivables from clients include amounts due on brokerage transactions on a trade-date basis. Trading payables to clients represent the closing cash balance to the customers, which mainly include cash deposits and amounts due on brokerage transactions on a trade date basis.

Receivables from and Payables to Brokers, Clearing Organizations and Fund Management Companies and Fund Distributors

Receivables from and payables to brokers, clearing organizations and fund management companies and fund distributors include receivables and payables from unsettled trades on a trade-date basis, including amounts receivable for securities, derivatives or funds trades not delivered by the Group to the purchaser by the settlement date and cash deposits, and amounts payable for securities, derivatives or funds trades not received by the Group from a seller by the settlement date.

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

The Group borrowed margin loans from executing brokers, with the benchmark interest rate plus premium differentiated depending on the amount borrowed, and immediately lent to margin financing clients. Margin loans borrowed is recognized in the payables to brokers.

The Group's policy is to net the receivables from and payables to clearing organizations according to ASC Topic 210-20, when all of the following conditions are met:

(a) Each of two parties owes the other determinable amounts.

(b) The reporting party has the right to set off the amount owed with the amount owed by the other party.

(c) The reporting party intends to set off.

(d) The right of setoff is enforceable at law.

Interest Receivable and Payable

Interest receivable which is included in receivables is calculated based on the contractual interest rate of bank deposit, loans and advances, securities loaned and receivables on an accrual basis, and is recorded as interest income as earned.

Interest payable which is included in payables is calculated based on the contractual interest rates of payables, borrowings, securities borrowed and securities sold under agreements to repurchase on an accrual basis, and is recorded as interest expense when incurred.

Securities Borrowed and Securities Loaned

Securities borrowed transactions require the Group to provide counterparties with collateral, which may be in the form of cash, or other securities. With respect to securities loaned, the Group receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Receivables and payables related to securities borrowed and securities loaned are included at receivables from and payables to brokers or clients in the consolidated balance sheets. Securities lending fees received and securities borrowing fees paid by the Group are included in interest income and interest expense, respectively, in the consolidated statements of comprehensive income.

Leases

In an operating lease, a lessee obtains control of only the use of the underlying asset, but not the underlying asset itself. An operating lease is recognized as a right-of-use asset with a corresponding liability at the date which the leased asset is available for use by the Group.

The Group's operating leases contain both lease components and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the underlying assets, such as common area maintenance and other management costs. The Company makes an accounting policy election not to separate non-lease components to measure the lease liability and lease asset.

The lease liability is initially measured at the present value of the future lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. The lease payments are discounted using the rate implicit in the lease or, if not readily determinable, the Group's secured incremental borrowing rate, which is based on an internally developed yield curve using interest rates of debt issued with a similar risk profile as the Group and a duration similar to the lease term. An operating lease right-of-use asset is initially measured at the value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent.

After commencement of the operating lease, the Group recognizes lease expenses on a straight-line basis over the lease term. The subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement. The right-of-use asset is subsequently measured at cost less accumulated amortization and any impairment provision. The amortization of the right-of-use asset represents the difference between the straight-line lease expense and the accretion of interest on the lease liability each period. The interest amount is used to accrete the lease liability and to amortize the right-of-use asset. There is no amount recorded as interest expense.

All of the Group's leases are classified as operating leases and primarily consist of real estate leases for corporate offices, data centers, and other facilities. As of December 31, 2021 and September 30, 2022, the weighted-average remaining lease term on these leases is approximately three years and three years, respectively, and the weighted-average discount rate used to measure the lease liabilities was approximately 4.71%and 4.65%, respectively.

For the nine months ended September 30, 2021 and 2022, right-of-use assets obtained under operating leases was HK$83,265 thousand and HK$44,793 thousand, respectively. The Group's lease agreements do not contain any residual value guarantees, restrictions or covenants.

Refundable Deposit

Refundable deposit is included in other assets in the consolidated balance sheets. As a clearing member firm of securities and derivatives clearing organizations in Hong Kong, Singapore and the U.S., the Group is also exposed to clearing member credit risk. These clearing organizations require member firms to deposit cash to a clearing fund. If a clearing member defaults in its obligations to the clearing organizations in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. Many clearing organizations of which the Group is member have the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost if the Group is required to pay such additional funds.

Property and Equipment, net

Property and equipment, which are included in other assets in the consolidated balance sheets are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

Category	Estimated useful lives	Residual rate
Computers equipment	3-5 years	5%
Furniture and fixtures	3-5 years	5%
Office equipment	3-5 years	5%
Office building	30 years	5%
Vehicle	5 years	5%

Expenditures for maintenance and repairs are expensed as incurred.

Intangible Assets

Intangible assets which are included in other assets in the consolidated balance sheets mainly consist of computer software, licenses and other intangible assets.

Finite-lived intangible assets are carried at historical cost less accumulated amortization and accumulated impairment losses, if any. Amortization of finite-lived intangible assets is calculated using the straight-line method to allocate costs over the estimated useful lives. Pursuant to topic ASC 350 Intangibles — Goodwill and Other, the useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. If an income approach is used to measure the fair value of the license, in determining the useful life of the intangible asset for amortization purposes, the period of expected cash flows used to measure the fair value of the license should be considered. The following is a summary of estimated useful lives:

Category	Estimated useful lives
Computer software	5 years
Licenses[(1)]	10 years

(1) The income approach was used to measure the fair value of the licenses, and the period of expected cash flows used to measure the fair value of the licenses is considered by the Group in determining the useful lives of the related licenses. Based on historical performance, market prospects and other macroeconomic conditions, the Group estimates that the useful lives of the related licenses are 10 years.

The other licenses recognised as infinite-lived intangible assets consist of an insurance broker license and a financial services license. The Group obtained an insurance broker license through acquiring a member of the Hong Kong Professional Insurance Brokers Association. The Group obtained some financial securities licenses via acquisition of subsidiaries. Such intangible assets were recognised as indefinite-lived as the cash flows were expected to continue indefinitely on the brokerage and financial service business in above regions.

The Group had held a futures trading right as a clearing member firm of HKEx in order to trade futures through the trading facilities of the Stock Exchange, and has recognized it as intangible assets. As trading right has an indefinite useful life and have no foreseeable limit to the period over which the Group can use to generate net cash flows, it will not be amortised until their useful lives are determined to be finite.

The aforementioned indefinite-lived intangible assets are carried at cost less accumulated impairment losses. The Group evaluates the remaining useful life of an indefinite-lived intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful lives. The Group will not amortize the indefinite-lived intangible assets until their useful lives are determined to be finite. An intangible asset that is not subject to amortization will be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Long-term investments

(1) Equity method investments

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

In accordance with ASC 323 Investment – Equity Method and Joint Ventures, the Group accounts for equity method investments over which the Group has significant influence but does not own a majority of the equity interest or otherwise controls and the investments are either common stock or in substance common stock using the equity method. For the investments in limited partnerships, the equity method of accounting for investments is generally appropriate for accounting by limited partners. According to ASC 323-30-S99-1, the investments in all limited partnerships should be accounted for pursuant to paragraph 970-323-25-6. That guidance requires the use of the equity method unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies." Investments of more than 3 to 5 percent are generally viewed to be more than minor. The Group's share of the investee's profit and loss is recognized in the consolidated statements of comprehensive income of the period.

The carrying amount of equity method investments is tested for impairment whenever there is an indication that the carrying amount may be impaired in accordance with the policy described in "Impairment of long-lived assets".

(2) Equity investments without readily determinable fair values

In accordance with ASC 321 Investment – Equity Securities, for those equity investments without readily determinable fair values, the Group elects to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of the equity investment are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Pursuant to ASC 321, for those equity investments that the Group elects to use the measurement alternative, the Group makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and fair value.

Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment by comparing carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. Impairment charge recognized for the nine months ended September 30, 2021 and 2022 was nil and nil, respectively.

Treasury stock

The Group accounted for those shares repurchased as treasury stock at cost of purchase, Treasury stock, and is shown separately in the shareholders' equity as the Group has not yet decided on the ultimate disposition of those shares acquired. When the Group decides to cancel the treasury stock, the difference between the original issuance price and the repurchase price is debited into additional paid-in capital. Refer to Note 11 for details.

Fair Value Measurements

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

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

Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

The carrying amount of cash and cash equivalents, cash held on behalf of clients, restricted cash, receivables from and payables to clients, brokers, clearing organizations and fund management companies and fund distributors, accrued interest receivable, accrued interest payable, amounts due to related parties, other financial assets and liabilities approximates fair value because of their short-term nature. Term deposit, loans and advances, borrowings, securities purchased under agreements to resell, securities sold under agreements to repurchase and operating lease liabilities are carried at amortized cost. The carrying amount of term deposit, loans and advances, borrowings and operating lease liabilities approximate their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments. Short-term investments are measured at fair value.

The Group's non-financial assets, such as operating lease right-of-use assets, long-term investments, property and equipment and intangible assets, would be measured at fair value only if they were determined to be impaired.

Revenue Recognition

(1) Brokerage commission and handling charge income

Brokerage commission income earned for executing transactions is accrued on a trade-date basis.

Handling charge income arise from the services such as clearing and settlement services, subscription and dividend collection handling services, etc., are accrued on a trade-date basis.

Brokerage commission and handling charge income are recognised at a point in time when the service has been passed to the customer.

(2) Interest income

The Group earns interest income primarily in connection with its margin financing and securities lending services, IPO financing, bridge loan and deposits with banks, which are recorded on an accrual basis and are included in interest income in the consolidated statements of comprehensive income. Interest income is recognized as it is accrued over time using the effective interest method.

(3) Other income

Other income consists of enterprise public relations service charge income provided to corporate clients, underwriting fee income, IPO subscription service charge income, currency exchange service income from clients, income from market data service and funds distribution service income from fund management companies, etc.

Enterprise public relations service charge income is charged to corporate clients by providing platform to post their detailed stock information and latest news in Futubull app, as well as providing a lively, interactive community among their potential investors to exchange investment views, share trading experience and socialize with each other. Unearned enterprise public relations service income of which the Group had received the consideration is recorded as contract liabilities (deferred revenue).

Underwriting fee income is generated from investment banking business primarily by providing equity sub-underwriting to corporate issuers.

IPO subscription service charge income is derived from provision of new share subscription services in relation to IPOs in the Hong Kong capital market.

Currency exchange service income is charged to the Group's paying clients for providing currency exchange service.

Market information and data income is charged to Futubull and Moomoo app users for market data service.

Funds distribution service income is charged to fund management companies for providing fund products distribution service to Futu's individual clients. The Group, as an intermediary would receive subscription fees from fund management companies as agreed in the service contracts.

For enterprise public relations service charge income, funds distribution service income, market information and data income and ESOP management service income, the service revenues are recognized ratably over the term of the service contracts.

For IPO subscription service charge income, underwriting fee income and currency exchange service income, the Group recognizes the revenues upon the time when the services are rendered to customers.

Customer Loyalty Program

The Group operates a customer loyalty program to its customers that offer various incentives in the form of incentive points and coupons for redemption of free or discounted goods or services.

For the incentives generated from current sales transaction, the Group defers a portion of commission income with corresponding liability reflected as contract liability attributable to the incentives. The contract liability is determined by management based on the expected usage of the incentive points and coupons, and their estimated relative standalone selling price based on the related goods and services. Significant judgment was made by management in determining the expected usage and estimated relative standalone selling price of the incentive points and coupons, derived from historical trading volume, commission rates and redemption patterns, and an evaluation as to whether historical activities are representative of the expected future activities.

For the incentives offered for future sales transaction, the Group nets a portion of brokerage commission income attributable to the incentives when points or coupons are actually redeemed.

For the incentives not offered for future sales transaction, the Group considers them as a payment of other distinct goods that would be granted to clients. Such incentives are accounted for as selling and marketing expense with corresponding liability reflected as other liability in the consolidated balance sheet.

The table below presents the deferred or netted brokerage commission income related to the customer loyalty program for the nine months ended September 30, 2021 and 2022.

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Brokerage commission income, gross	2,860,846	2,631,790
Less: revenue netted or deferred	(406,627)	(243,002)
Brokerage commission income, net	2,454,219	2,388,788

As of December 31, 2021 and September 30, 2022, contract liabilities recorded related to the customer loyalty program were HK$8,968 thousand and HK$6,278 thousand, respectively. The Group expects to recognize the revenue when points and coupons are actually redeemed. Historically, the revenue was usually recognized within 1-3 years from the time the contract liability was first recognized.

Brokerage Commission and Handling Charge Expenses

Commission expenses for executing and/or clearing transactions are accrued on a trade-date basis. The commission expenses are charged by executing brokers for securities and derivative trades in the United States stock and derivative markets as the Group makes securities and derivative trades with these brokers as principal.

Handling and settlement fee is charged by HKEx or executing brokers for clearing and settlement services, are accrued on a trade-date basis.

IPO subscription service charge expenses are charged by commercial banks in connection with new share subscription services in relation to IPOs in the Hong Kong capital market.

Interest Expenses

Interest expenses primarily consist of interest expenses of borrowings from banks, other licensed financial institutions and other parties paid to fund the Group's margin financing business, securities borrowing business and IPO financing business.

Processing and Servicing Costs

Processing and servicing costs consist of market information and data fee, data transmission fee, cloud service fee, system cost, and SMS service fee, etc. The nature of market information and data fee mainly represents for information and data fee paid to stock exchanges like HKEx, NASDAQ, and New York stock exchange, etc. Data transmission fee is the fee of data transmission among cloud server and data centers located in Shenzhen, PRC and Hong Kong, etc. Cloud service fee and SMS service fee mainly represent the data storage and computing service and the SMS channel service fee. The nature of system cost mainly represents for the fee to access and use the systems paid to software providers.

Research and Development Expenses

Research and development expenses consist of expenses related to developing transaction platform and website like Futubull app and other products, including payroll and welfare, rental expenses and other related expenses for personnel engaged in research and development activities. All research and development costs have been expensed as incurred as the costs qualifying for capitalization have been insignificant.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of advertising and promotion costs, payroll, rental and related expenses for personnel engaged in marketing and business development activities. Advertising and promotion costs are expensed as incurred and are included within selling and marketing expenses in the consolidated statements of comprehensive income.

General and Administrative Expenses

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

Others, net

Others, net, mainly consist of non-operating income and expenses, foreign currency gains or losses, expected credit loss expenses, gain or loss from investments and impairment from long-term investments and other non-current assets for all periods presented.

Foreign Currency Gains and Losses

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign currency gain or loss resulting from the settlement of such transactions and from remeasurement at period-end is recognized in "Others, net" in the consolidated statements of comprehensive income.

Share-Based Compensation

The Company follows ASC 718 to determine whether a share option and a restricted share units should be classified and accounted for as a liability award or equity award. All share-based awards to employees and directors classified as equity awards, such as stock options and restricted share units, are measured at the grant date based on the fair value of the awards. Share-based compensation, net of estimated forfeitures, is recognized as expenses on a straight-line method over the requisite service period, which is the vesting period. Options granted generally vest over four or five years.

The modification of the terms or conditions of the existing shared-based award is treated as an exchange of the original award for a new award. The incremental compensation expenses are equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For stock options already vested as of the modification date, the Group immediately recognized the incremental value as compensation expenses. For stock options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these stock options.

The Company determined the fair value of the restricted share units with reference to the fair value of the underlying shares as of the grant date. The Company utilizes the binomial option pricing model to estimate the fair value of stock options granted, with the assistance of an independent valuation firm.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate pre-vesting options and records share-based compensation expenses only for those awards that are expected to vest. See Note 13 for further discussion on share-based compensation.

Fair Value of Preferred Shares and Pre-IPO Ordinary Shares

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

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

Taxation

(1) Income tax

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

(2) Uncertain tax positions

The Group did not recognize any interest and penalties associated with uncertain tax positions for the nine months ended September 30, 2021 and 2022, the Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

Net income per share

Basic net income per share is computed by dividing net income attributable to ordinary shareholder, considering the accretion of redemption feature and cumulative dividend related to the Company's redeemable convertible preferred shares, and undistributed earnings allocated to redeemable convertible preferred shares by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted net income per share is calculated by dividing net income attributable to ordinary shareholder, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the redeemable convertible preferred shares, using the if-converted method, and shares issuable upon the exercise of share options and vesting of restricted share units using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net income per share calculation when inclusion of such share would be anti-dilutive.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer who allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographic location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The Group engages primarily in online brokerage services and margin financing services. The Group does not distinguish between markets or segments for the purpose of internal reports. The Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole. Hence, the Group has only one reportable segment.

Significant Risks and Uncertainties

(1) Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the financial instruments. The Group is not exposed to significant transactional foreign currency risk since almost all of its transactions, assets and liability are denominated in Hong Kong dollars and U.S. dollars and Hong Kong dollars are pegged against U.S. dollars. The impact of foreign currency fluctuations in the Group's earnings is included in "Others, net" in the consolidated statements of comprehensive income. At the same time, the Group is exposed to translational foreign currency risk since some of the Company's major subsidiaries have RMB as their functional currency. Therefore, RMB depreciation against Hong Kong dollars could have a material adverse impact on the foreign currency translation adjustment in the consolidated statements of comprehensive income. The Group enters into currency futures contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. The overall impact of the currency risk of other foreign currency assets held by the Group other than U.S. dollars and Renminbi is not significant.

As of December 31, 2021 and September 30, 2022, the Group had RMB-denominated net assets of HK$2,374.8 million and net assets of HK$1,894.9 million, respectively. We estimate that a 10% depreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2021 and September 30, 2022, would result in a decrease of US$30.5 million and a decrease of US$24.1 million, respectively, in the Group's pre-tax profit. We estimate that a 10% appreciation of RMB against the U.S. dollar based on the foreign exchange rate on December 31, 2021 and September 30, 2022 would result in an increase of US$30.5 million and an increase of US$24.1 million, respectively, in the Group's pre-tax profit.

(2) Credit risk

Cash held on behalf of clients are segregated and deposited in financial institutions as required by rules mandated by the Group's primary regulators. These financial institutions are of sound credit ratings, therefore management believes that there is no significant credit risk related to cash held on behalf of clients.

The Group's securities and derivative trades activities are transacted on either a cash or margin basis. The Group's credit risk is limited in that substantially all of the contracts entered into are settled directly at securities and derivatives clearing organizations. In margin transactions, the Group extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. IPO loans are exposed to credit risk from clients who fails to repay the loans upon IPO stock allotment. The Group monitors the clients' collateral level and has the right to dispose the newly allotted stocks once the stocks first start trading. Bridge loans to enterprise pledged by shares are exposed to credit risk from counterparties who fail to repay the loans, the Group monitors on the collateral level of bridge loans in real time, and has the right to dispose of the pledged shares once the collateral level falls under the minimal level required to get the loans repaid.

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

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

For cash management purposes, the Group enters into short-term securities sold under agreements to repurchase transactions ("repos") in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Group attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group as permitted under contractual provisions.

Concentrations of Credit Risk

The Group's exposure to credit risk associated with its brokerage and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. There was no revenue from clients which individually represented greater than 10% of the total revenues for the nine months ended September 30, 2021 and 2022, respectively. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of December 31, 2021 and September 30, 2022, the Group did not have any material concentrations of credit risk within or outside the ordinary course of business.

(3) Interest rate risk

Fluctuations in market interest rates may negatively affect the Group's financial condition and results of operations. The Group are exposed to floating interest rate risk on cash deposit and floating rate borrowings. We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax profit or loss. The model includes all interest-sensitive assets and liabilities. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax profit or loss. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of a simulated change in interest rates. The results of the simulations based on the Group's financial position as of September 30, 2022 indicate that a gradual 1% (100 basis points) increase/decrease in interest rates over a 12-month period would have increased/decreased the Group's profit before tax by approximately HK$309.6 million (US$39.6 million), depending largely on the extent and timing of possible changes in floating rates.

Recent Accounting Pronouncements

In June 2016, the FASB amended guidance related to impairment of financial instruments as part of ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which is effective on January 1, 2020. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which the group is required to recognize an allowance based on its estimate of expected credit loss. In November 2018, FASB issued ASU No, 2018-19, Codification Improvements to Topic 326, further clarified the scope of the guidance in the amendments in ASU 2016-13. In May 2019, FASB issued ASU No.2019-05, Financial instrument – Credit Losses (Topic 326), Targeted Transition Relief, which provides an irrevocably fair value option to elect for eligible instruments. In November 2019, FASB issued ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments – Credit Losses, which clarified and improved various aspects of ASU 2016-13. In March 2020, FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, which improves and clarifies various financial instruments topics, including the current expected credit losses standard. As of January 1, 2020, the Group adopted ASC Topic 326 using the modified retrospective approach for all in-scope assets. The adoption of ASC Topic 326 has no impact on the Group's retained earnings as of January 1, 2020. Results for reporting periods beginning after January 1, 2020 are presented under ASC Topic 326 while prior periods continue to be reported in accordance with previously applicable U.S. GAAP.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. ASU 2018-13 is effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The update eliminates the requirement to disclose: (a) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (b) an entity's policy for timing of transfers between levels; (c) and an entity's valuation processes for Level 3 fair value measurements. The Group adopted ASU 2018-13 on January 1, 2020, and the adoption had no material impact on the Group's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income taxes (Topic 740) – Simplifying the accounting for income taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Group adopted the ASU on January 1, 2021, which did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting if certain criteria are met. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance is effective immediately and the amendments may be applied prospectively through December 31, 2022. The adoption did not have a material accounting impact on the Group's consolidated financial position or results of operations.

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets and Liabilities Measured at Fair Value

The following tables set forth, by level within the fair value hierarchy, financial assets and financial liabilities measured at fair value as of December 31, 2021 and September 30, 2022. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	Financial Assets At Fair Value as of December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	(HK$ in thousands)			
Short-term investments	1,169,741	–	–	1,169,741
Other financial assets[1]	–	598	–	598
Total financial assets, measured at fair value	1,169,741	598	–	1,170,339

	Financial Assets and Liabilities At Fair Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
	(HK$ in thousands)			
Short-term investments	13,373	–	–	13,373
Total financial assets, measured at fair value	13,373	–	–	13,373
Other financial liabilities(1)	2,125	8,989	–	11,114
Total financial liabilities, measured at fair value	2,125	8,989	–	11,114

(1) The Group enters into currency futures contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. The currency futures contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy since inputs to their valuation can be generally corroborated by market data. As of December 31, 2021 and September 30, 2022, the currency futures are included in other current assets or other current liabilities.

The Group held trading liabilities and classified them as Level 1 of the fair value hierarchy since the fair value are determined based on the quoted market price, as of September 30, 2022, the trading liabilities are included in other current liabilities.

Transfers Between Level 1 and Level 2

Transfers of financial assets and financial liabilities at fair value to or from Levels 1 and 2 arise where the market for a specific financial instrument has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period. During the nine months ended September 30, 2021 and 2022, there were no transfers between levels for financial assets and liabilities, at fair value.

Financial Assets and Liabilities Not Measured at Fair Value

The following financial instruments are not measured at fair value in the Group's consolidated balance sheets as of December 31, 2021 and September 30, 2022, but require disclosure of their fair values: cash and cash equivalents, cash held on behalf of clients, term deposit, restricted cash, securities purchased under resale agreements, loans and advances, receivables, other financial assets, amounts due to related parties, payables, borrowings, securities sold under agreements to repurchase and other financial liabilities. The estimated fair value of such instruments at December 31, 2021 and September 30, 2022 approximates their carrying value due to their generally short maturities. If measured at fair value in the financial statements, these financial instruments would be classified based on the lowest level of any input that is significant to the fair value measurement.

Netting of Financial Assets and Financial Liabilities

The Group's policy is to net the receivables from and payables to clearing organizations that meet the offsetting requirements prescribed in ASC Topic 210-20. The following tables represents the amounts of financial instruments that are offset in the consolidated balance sheets as of December 31, 2021 and September 30, 2022.

As of December 31, 2021	Effects of offsetting on the balance sheet: Gross amount	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Related amounts not offset: Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
	(HK$ in thousands)					
Financial Assets						
Amounts due from clearing organizations	7,596,090	(5,634,969)	1,961,121	–	–	1,961,121
Financial liabilities						
Amounts due to clearing organizations	6,028,751	(5,634,969)	393,782	–	–	393,782

As of September 30, 2022	Effects of offsetting on the balance sheet: Gross amount	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Related amounts not offset: Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
	(HK$ in thousands)					
Financial Assets						
Amounts due from clearing organizations	5,741,976	(4,140,950)	1,601,026	–	–	1,601,026
Financial liabilities						
Amounts due to clearing organizations	6,191,263	(4,140,950)	2,050,313	–	–	2,050,313

4. SHORT-TERM INVESTMENTS

The Group's short-term investments are presented on the consolidated balance sheets as follows:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Money market funds	1,169,741	7,894
Financial assets at fair value through profit or loss	–	5,479
Total	1,169,741	13,373

For the nine months ended September 30, 2021 and 2022, the Group recorded realized gain of nil and HK$16,919 thousand related to short-term investments in the consolidated statements of comprehensive income, respectively.

5. LEASE

The following table presents balances reported in the consolidated balance sheets related to the Group's leases:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Operating lease right-of-use assets	243,859	200,030
Operating lease liabilities	260,579	213,276

The following table presents operating lease expense reported in the consolidated statements of comprehensive income related to the Group's leases:

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Operating lease expense	77,400	87,503

The following table reconciles the undiscounted cash flows of the Group's leases as of December 31, 2021 and September 30, 2022 to the present value of its operating lease payments:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
2022	102,767	29,078
2023	96,326	101,988
2024	38,306	47,020
2025	30,688	37,146
2026 and thereafter	7,455	15,908
Total undiscounted operating lease payments	275,542	231,140
Less: imputed interest	(14,963)	(17,864)
Present value of operating lease liabilities	260,579	213,276

6. LOANS AND ADVANCES

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Margin loans	29,097,216	27,788,266
IPO loans	34,348	22,381
Other advances	468,000	1,972,873
Subtotal	29,599,564	29,783,520
Less: Allowance for credit losses	(12,258)	(25,913)
Total	29,587,306	29,757,607

7. OTHER ASSETS

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Current:		
Staff advances	26,527	16,255
Deposit	23,032	39,601
Others	32,035	54,297
Total	81,594	110,153
Non-current:		
Refundable deposit	337,513	691,509
Property and equipment, net *(Note a)*	175,757	149,448
Intangible assets, net *(Note b)*	17,218	51,121
Deferred tax assets *(Note 23)*	38,317	51,062
Total	568,805	943,140

(a) Property and equipment, net, consisted of the following:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Gross carrying amount		
Computers and equipment	109,989	103,709
Furniture and fixtures	64,507	68,890
Office equipment	64,822	64,168
Office building	28,239	33,233
Vehicle	635	640
Total of gross carrying amount	268,192	270,640

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Less: accumulated depreciation		
Computers and equipment	(29,852)	(41,898)
Furniture and fixtures	(23,828)	(33,502)
Office equipment	(35,860)	(42,218)
Office building	(2,291)	(2,966)
Vehicle	(604)	(608)
Total of accumulated depreciation	(92,435)	(121,192)
Property and equipment, net	175,757	149,448

Depreciation expenses on property and equipment which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2021 and 2022 were HK$23,239 thousand and HK$36,926 thousand, respectively.

(b) Intangible assets, net, consisted of the following:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Gross carrying amount		
Computer software	15,596	23,247
License	4,261	27,602
Others	3,638	9,975
Total of gross carrying amount	23,495	60,824
Less: accumulated amortization		
Computer software	(5,172)	(7,263)
License	–	(793)
Others	(1,105)	(1,647)
Total of accumulated amortization	(6,277)	(9,703)
Intangible assets, net	17,218	51,121

Amortization expenses on intangible assets which are included in research and development expenses, selling and marketing expenses and general and administrative expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2021 and 2022 were HK$1,491 thousand and HK$4,120 thousand, respectively.

8. LONG-TERM INVESTMENTS

The Group's long-term investments primarily consist of equity method investments and equity investments without readily determinable fair values.

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Equity method investments[1]	7,798	229,970
Equity investments without readily determinable fair values[2]	15,596	15,754
Total	23,394	245,724

(1) Equity method investments

As of December 31, 2021 and September 30, 2022, the Group's investments accounted for under the equity method totaled HK$7,798 thousand and HK$229,970 thousand, respectively. The Group applies the equity method of accounting to account for its equity method investments over which it has significant influence but does not own a majority equity interest or otherwise control.

In January 2019, the Group invested in a private company by acquiring 20% ordinary equity interest with a total consideration of HK$6,709 thousand. The Group accounts for this as an equity method investment. For the years ended December 31, 2019 and 2020, loss on investment recognized were HK$543 thousand and HK$278 thousand, respectively.Based on the Group's assessment on the recoverable amounts of the equity method investment, as of December 31, 2021 and September 30, 2022, the impairment provision on the equity method investment was HK$5,888 thousand and HK$5,888 thousand, respectively.

In December 2021, the Group invested in a private equity fund by acquiring approximately 10% ordinary equity interest with a total consideration of HK$7,798 thousand. The Group accounts for this as an equity method investment. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of December 31, 2021 and September 30, 2022, no impairment provision on the equity method investment was recognized.

In June 2022, the Group invested in a private equity fund by acquiring approximately 16% ordinary equity interest with a total consideration of HK$235,434 thousand. The Group accounts for this as an equity method investment. For the period ended September 30, 2022, loss on investment recognized were HK$13,324 thousand. Based on the Group's assessment on the recoverable amounts of this equity method investment, as of September 30, 2022, no impairment provision on the equity method investment was recognized.

(2) Equity investments without readily determinable fair values

As of December 31, 2021 and September 30, 2022, the Group's equity investments without readily determinable fair values totaled HK$15,596 thousand and HK$15,754 thousand, respectively. In December 2021, the Group invested in a private equity fund by acquiring 2.75 % ordinary equity interest with a total consideration of HK$15,596 thousand. Equity securities without determinable fair values of the Group represent investments in privately held companies with no readily determinable fair value. The Group elected measurement alternative and recorded these investments at cost, less impairment, adjusted for subsequent observable price changes. As of December 31, 2021 and September 30, 2022, no impairment provision on the equity investments without readily determinable fair values were recognized.

9. BORROWINGS

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Borrowings from banks[(1)]	6,357,405	6,547,293

The Group obtained borrowings mainly to support its margin financing business in Hong Kong securities market. Those borrowings bear weighted average interest rates of 1.15% and 3.43% as of December 31, 2021 and September 30, 2022, respectively.

(1) The Group has unused borrowing facilities of HK$14,695,095 thousand and HK$15,748,479 thousand from banks as of December 31, 2021 and September 30, 2022, respectively, which are uncommitted. These bank borrowings were pledged by margin clients' shares as the primary source of credit risk mitigation of the lenders, and beared floating interest rates based on various benchmarks including Hong Kong Prime Rate, Hong Kong Interbank Offered Rate IBOR"), CNH HIBOR, etc.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Current:		
Accrued payroll and welfare expenses	531,409	692,817
Tax payables	494,744	423,669
Payables to corporate clients in relation to ESOP management services[(1)]	870,283	265,647
Accrued advertising and promotion fee	152,305	120,409
Temporary payables in relation to fund distribution services	48,240	68,003
Stamp duty, trading levy and trading fee payables	19,447	31,625
Accrued professional fee	22,066	16,540
Accrued market information and data fee	12,832	6,457
Refund from depositary bank – current	2,773	2,791
Contract liabilities – current	3,058	1,323
Others	19,056	54,541
Total	2,176,213	1,683,822
Non-current:		
Contract liabilities – non-current	5,910	4,955
Refund from depositary bank – non-current	4,389	2,325
Deferred tax liabilities *(Note 23)*	636	13,446
Total	10,935	20,726

(1) Payables to corporate clients in relation to ESOP management services mainly consist of exercise payment of share options and related withholding tax. These payables are usually expected to be settled within one year.

11. ORDINARY SHARES AND TREASURY STOCK

Ordinary shares

The Company's original Memorandum and articles of association authorized the Company to issue 807,500 ordinary shares with a par value of US$0.0050 per share. After a share split effective on September 22, 2016, the Company's amended Memorandum and articles of association authorized the Company to issue 403,750,000 ordinary shares with a par value of US$0.00001 per share. Each ordinary share is entitled to one vote. Immediately prior to the completion of the initial public offering on March 8, 2019, the Company was approved by the board of directors of the Company to adopt a dual class share structure, consisting of 48,700,000,000 Class A ordinary shares with a par value of US$0.00001 each, 800,000,000 Class B ordinary shares with a par value of US$0.00001 each and 500,000,000 shares undesignated with a par value of US$0.00001 each. In respect of all matters subject to shareholders' vote, each holder of Class A ordinary share is entitled to one and each holder of Class B ordinary share is entitled to twenty votes.

In December, 2020, the Company entered into a securities purchase agreement with a leading global investment firm for a private placement of Pre-Funded warrants (the "Offering" or the "Pre-Funded Warrants"). The net proceeds to the Company from the Offering were approximately US$262.5 million (HK$2,035 million). In the Offering, the Company issued Pre-Funded warrants to purchase 53,600,000 shares of Class A ordinary shares that were immediately exercisable and had a termination date in June 2022, at a price of US$4.89751 less a nominal exercise price of US$0.00001 per Pre-Funded warrant. The Pre-Funded Warrants were equity classified because they were immediately exercisable, did not embody an obligation for the Company to repurchase its shares, and permitted the holders to receive a fixed number of common shares upon exercise. In addition, such warrants did not provide any guarantee of value or return. On June 11, 2021, the investment firm exercised these Pre-Funded warrants which increased 53,599,890 shares of Class A ordinary shares, and 110 shares were retrieved as the consideration of share purchase.

On April 24, 2021, the Company completed a public offering, issued 87,400,000 Class A ordinary shares for a total consideration of US$1,398 million (HK$10,856.5 million) after deducting the underwriting discounts and commissions and offering expenses.

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. On August 16, 2022, 64,000,000 shares of Class B ordinary shares were converted to the same number of Class A ordinary shares.

During the nine months ended September 30, 2021 and 2022, 4,192,000 and 1,475,848 shares of Class A Ordinary Shares were issued upon exercise of outstanding stock options, nil and 134,700 shares of Class A Ordinary Shares were issued upon vest of outstanding restricted share units under the Group's share-based incentive plans (Note 13).

Treasury stock

On November 3, 2021, the Group's Board of Directors approved a share repurchase program to repurchase up to US$300.0 million worth of its own American depositary shares ("ADSs"), representing its Class A ordinary shares, until December 31, 2022.

On March 10, 2022, the Group's Board of Directors approved another share repurchase program to repurchase up to US$500.0 million worth of the ADSs, representing its Class A ordinary shares, until December 31, 2023.

As of December 31, 2021 and September 30, 2022, the Group had repurchased an aggregate of 29,462,760 and 110,839,528 Class A ordinary shares under these share repurchase programs in the open market, at an average price of US$41.04 and US$36.74 per ADS, or US$5.13 and US$4.59 per share for a total consideration of US$151.2 million (HK$1,178.8 million) and US$508.7 million (HK$3,975.2 million), respectively.

12. RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the Group's PRC subsidiaries and VIEs are required to make appropriation to certain reserve funds, namely general reserve fund, enterprise expansion fund, and staff bonus and welfare fund, all of which are appropriated from the subsidiaries' annual after-tax profits as reported under PRC GAAP. The appropriation must be at least 10% of the annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of the subsidiaries' registered capital.

The domestic companies are also required to provide discretionary surplus fund, at the discretion of the Board of Directors, from its annual after-tax profits as reported under PRC accounting standards. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

Furthermore, cash transfers from the Group's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency at the time of requesting such conversion may temporarily delay the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy their foreign currency denominated obligations.

As a result of the PRC laws and regulations and the requirement that distributions by the PRC entity can only be paid out of distributable profits computed in accordance with PRC accounting standards, the PRC entity is restricted from transferring a portion of its net assets to the Group. Amounts restricted include paid-in capital and statutory reserves of the Group's PRC subsidiaries and VIEs. As of December 31, 2021 and September 30, 2022, the restricted net assets of the Group's relevant PRC entities amounted to HK$304,377 thousand and HK$304,377 thousand, respectively.

13. SHARE-BASED COMPENSATION

Share-based compensation was recognized in operating expenses for the nine months ended September 30, 2021 and 2022 as follows:

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Research and development expenses	49,290	106,395
General and administrative expenses	8,913	30,694
Selling and marketing expenses	6,092	11,616
Total share-based compensation expenses	64,295	148,705

Share Options

In October 2014, the Board of Directors of the Company approved the establishment of 2014 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to the Group. The 2014 Share Incentive Plan shall be valid and effective until October 30, 2024. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2014 Share Incentive Plan shall be 135,032,132 shares. Option awards are granted with an exercise price determined by the Board of Directors. Those option awards generally vest over a period of four or five years and expire in ten years.

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan, pursuant to which the maximum number of shares of the Company available for issuance shall be a number of up to 2% of the total number of shares issued and outstanding on September 29, 2019 as determined by the Board, plus an annual increase on each September 30 during the term of this 2019 Share Incentive Plan commencing on September 30, 2020, by an amount determined by the Board; provided, however, that (i) the number of shares increased in each year shall not be more than 2% of the total number of shares issued and outstanding on September 29 of the same year and (ii) the aggregate number of shares initially reserved and subsequently increased during the term of this 2019 Share Incentive Plan shall not be more than 8% of the total number of shares issued and outstanding on September 29, 2019 immediately preceding the most recent increase.

On December 30, 2019, the Company modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to US$0.60. The incremental compensation expenses of HK$3,008 thousand (US$386 thousand) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification.

For the nine months ended September 30, 2021 and 2022, the Group granted 1,080,000 and nil stock options to employees pursuant to the 2014 Share Incentive Plan and 2019 Share Incentive Plan.

A summary of the stock option activity under the 2014 and 2019 Share Incentive Plan for the nine months ended September 30, 2021 and 2022 is included in the table below.

	Options granted share number	Weighted average exercise price per option
		(US$)
Outstanding at December 31, 2021	13,341,466	0.5703
Exercised	(1,475,848)	0.5996
Forfeited	(347,136)	0.6368
Outstanding at September 30, 2022	11,518,482	0.5645
Outstanding at December 31, 2020	19,042,336	0.5628
Exercised	(4,192,000)	0.3619
Granted	1,080,000	0.0444
Forfeited	(743,998)	0.6548
Outstanding at September 30, 2021	15,186,338	0.5769

The following table summarizes information regarding the share options outstanding as of December 31, 2021 and September 30, 2022, and exercise prices and aggregate intrinsic value have been adjusted according to the modification of exercise price in December 2019:

	As of December 31, 2021			
	Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value
		(US$)		*(US$ in thousands)*
Options				
Outstanding	13,341,466	0.5703	3.42	165,157
Exercisable	2,825,014	0.5729	2.85	34,964
Expected to vest	10,516,452	0.5696	3.57	130,193

	As of September 30, 2022			
	Options number	Weighted-average exercise price per option	Weighted-average remaining exercise contractual life (years)	Aggregate intrinsic value
		(US$)		*(US$ in thousands)*
Options				
Outstanding	11,518,482	0.5645	2.76	51,515
Exercisable	1,653,781	0.4808	2.51	7,535
Expected to vest	9,864,701	0.5786	2.80	43,980

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the underlying stock at December 31, 2021 and September 30, 2022.

The weighted average grant date fair value of options granted for the nine months ended September 30, 2021 and 2022 were US$18.9219 and nil per option, respectively.

Options exercised for the nine months ended September 30, 2021 and 2022 were 4,192,000 and 1,475,848, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2021 and 2022 was approximately HK$543,551 thousand (US$69,986 thousand) and HK$49,305 thousand (US$6,295 thousand).

The fair value of each option granted for the nine months ended September 30, 2021 and 2022 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	Nine months ended September 30,	
	2021	2022
Risk-free interest rate	0.09%-0.89%	NA
Expected term (in years)	5.00	NA
Expected dividend yield	0%	NA
Expected volatility	40%	NA
Expected forfeiture rate (post-vesting)	15%	NA

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Company has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

As of December 31, 2021 and September 30, 2022, there was HK$201,948 thousand (US$25,897 thousand) and HK$160,054 thousand (US$20,389 thousand) of unrecognized compensation expenses related to the options, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 3.96 and 3.31 years, respectively, and may be adjusted for future changes in estimated forfeitures.

Restricted Share Units Plan

In December 2018, the Board of Directors of the Company approved the 2019 Share Incentive Plan. The fair value of restricted share units granted with service conditions is estimated based on the fair market value of the underlying ordinary shares of the Company on the date of grant.

The following table summarizes activities of the Company's restricted share units granted to employees under the plan for the nine months ended September 30, 2021 and 2022:

	Shares awarded number	Weighted-average grant date fair value per share
		(US$)
Outstanding at December 31, 2021	16,961,864	5.6793
Vested	(134,600)	20.1363
Granted	2,827,320	5.4125
Forfeited	(1,355,240)	5.3584
Outstanding at September 30, 2022	18,299,344	5.5555
Outstanding at December 31, 2020	6,067,400	4.6827
Granted	837,072	20.1363
Forfeited	(231,680)	4.7350
Outstanding at September 30, 2021	6,672,792	6.6195

For the nine months ended September 30, 2021 and 2022, the Group granted 837,072 and 2,827,320 restricted share units to employees pursuant to the 2019 Share Incentive Plan, respectively.

As of December 31, 2021 and September 30, 2022, there was HK$694,749 thousand (US$89,092 thousand) and HK$670,477 thousand (US$85,412 thousand) of unrecognized compensation expenses related to the restricted share units, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of 4.64, and 3.26 years and may be adjusted for future changes in estimated forfeitures.

14. NET INCOME PER SHARE

For the year ended December 31, 2019, the Group has determined that its all classes of convertible redeemable preferred shares are participating securities as they participate in undistributed earnings on an as-if-converted basis. The holders of the Preferred Shares are entitled to receive dividends on a pro rata basis, as if their shares had been converted into ordinary shares. Accordingly, the Group uses the two-class method of computing net income per share, for ordinary shares and preferred shares according to the participation rights in undistributed earnings. For the year ended December 31, 2020, the Company issued pre-funded warrants to purchase 53,600,000 shares of Class A ordinary shares with an exercise price of US$0.00001 that are included in our computation of basic earnings per share. For the year ended December 31, 2021, the investment firm exercised these pre-funded warrants which increased 53,599,890 shares of Class A ordinary shares, and 110 shares were retrieved as the consideration of share purchase.

Basic net income per share and diluted net income per share have been calculated in accordance with ASC 260 on computation of earnings per share for the nine months ended September 30, 2021 and 2022 as follows:

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands, except for share and per share data)	
Basic net income per share calculation:		
Numerator:		
Net income attributable to ordinary shareholders of the Company	2,311,401	1,968,168
Denominator:		
Weighted average number of ordinary shares outstanding – basic	1,192,527,761	1,147,484,439
Net income per share attributable to ordinary shareholders of the Company – basic	1.94	1.72
Diluted net income per share calculation:		
Numerator:		
Net income attributable to ordinary Shareholders of the Company	2,311,401	1,968,168
Denominator:		
Weighted average number of ordinary shares outstanding – basic	1,192,527,761	1,147,484,439
Dilutive effect of share options and restricted share units	19,664,213	10,917,137
Weighted average number of ordinary shares outstanding – diluted	1,212,191,974	1,158,401,576
Net income per share attributable to ordinary shareholders of the Company – diluted	1.91	1.70

For the nine months ended September 30, 2021 and 2022, options to purchase ordinary shares and restricted share units that were anti-dilutive and excluded from the calculation of diluted net income per share were nil and 4,975,271 shares on a weighted average basis, respectively.

15. COLLATERALIZED TRANSACTIONS

The Group engages in margin financing transactions with its clients. Margin loans generated from margin lending activity are collateralized by cash and/or client-owned securities held by the Group. The Group monitors the required margin and collateral level on a daily basis in compliance with regulatory and internal guidelines and controls its risk exposure through risk management system. Under applicable agreements, clients are required to deposit additional collateral or reduce holding positions, when necessary to avoid forced liquidation of their positions.

Pursuant to the authorization obtained from margin clients, the Group further repledges the collaterals to commercial banks or other financial institutions to obtain the funding for the margin or other businesses.

The following table summarizes the amounts of margin loans and clients' collaterals received and repledged by the Group as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Margin loan extended to margin clients (net)	29,084,958	27,762,353
Securities purchased under agreements to resell transactions	106,203	22,349
Collateral received from margin clients	119,745,500	105,695,849
Collateral received from brokers	144,156	29,207
Collateral repledged to commercial banks and other financial institutions	20,953,603	13,099,509

The Group also engaged in securities borrowing and lending transactions which require it to deposit cash collateral with the securities lenders and receive the cash collateral from the borrowers. The cash collateral is generally in excess of the market value of the securities borrowed and lent. The Group monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually.

The following table summarizes the amounts of market value of securities borrowed and lent and cash collateral received and deposited as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Securities borrowed and lent[(1)]	8,436,638	13,878,468
Cash collateral deposited with lenders	3,120,123	1,144,340
Cash collateral received from borrowers	9,737,786	14,676,066

(1) Borrowed securities includes securities borrowed from margin clients under authorization, in this case no cash collateral is required.

16. BROKERAGE COMMISSION AND HANDLING CHARGE INCOME

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	(HK$ in thousands)	
Brokerage commission income	2,454,219	2,388,788
Handling charge income	601,872	570,262
Total	3,056,091	2,959,050

17. INTEREST INCOME

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Interest income from:		
Margin financing	1,254,098	1,193,838
Bank deposits	143,669	496,066
Securities lending	307,435	292,095
Bridge loan	–	91,503
IPO financing	195,406	1,870
Other financing	–	1,112
Total	1,900,608	2,076,484

18. OTHER INCOME

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Currency exchange service income	154,433	111,277
Funds distribution service income	48,771	61,661
Enterprise public relations service charge income	76,809	33,979
Market information and data income	34,148	31,989
Underwriting fee income	68,216	19,932
Trust service income	2,918	5,448
IPO subscription service charge income	163,331	5,318
Others	7,186	28,170
Total	555,812	297,774

19. BROKERAGE COMMISSION AND HANDLING CHARGE EXPENSES

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Commission, handling and settlement expenses	437,923	264,950
IPO subscription service charge expenses	46,539	845
Total	484,462	265,795

20. INTEREST EXPENSES

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Interest expenses for margin financing		
Due to banks	97,358	48,369
Due to other licensed financial institutions	49,131	9,233
Interest expenses for securities borrowed		
Due to clients	110,186	42,325
Due to brokers	15,207	10,598
Interest expenses for IPO financing		
Due to banks	49,404	–
Total	321,286	110,525

21. PROCESSING AND SERVICING COSTS

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Cloud service fee	75,575	168,555
Market information and data fee	50,257	56,229
Data transmission fee	42,638	28,393
System cost	9,709	19,715
SMS service fee	905	823
Others	4,379	3,927
Total	183,463	277,642

22. NON-INTEREST COST AND EXPENSES BY NATURE

	Nine months ended September 30,	
	2021	2022
	(HK$ in thousands)	
Employee compensation and benefits	785,177	1,497,752
Marketing and branding	908,983	459,784
Processing and servicing costs *(Note 21)*	183,463	277,642
Brokerage commission and handling charge expenses *(Note 19)*	484,462	265,795
Rental and other related expenses	77,400	87,503
Professional services	38,420	57,743
Depreciation and amortization	24,730	41,046
Listing expenses	–	2,135
Others	66,230	85,144
Total	2,568,865	2,774,544

23. TAXATION

Income Tax

(1) Cayman Islands

The Group was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

(2) The United States ("US")

The Company's subsidiaries incorporated in the United States are subject to statutory income tax at a rate up to 35% for taxable income earned in the United States. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, significantly revising the U.S corporate income tax law. Changes include a reduction in the federal corporate tax, changes to operating loss carry-forwards and carrybacks, and a repeal of the corporate alternative minimum tax. This legislation resulted in a reduction of the U.S. federal corporate income tax rates from a maximum of 35% to 21%, to which the subsidiaries incorporated in the United States are subject.

(3) Hong Kong

Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(4) Singapore

The Company's subsidiaries incorporated in Singapore are subject to an income tax rate of 17% for taxable income earned in Singapore. Singapore does not impose a withholding tax on dividends for resident companies. For the nine months ended September 30, 2021 and 2022, we did not incur any income tax as there was no estimated assessable profit that was subject to Singapore income tax.

(5) China

The Company's subsidiaries, consolidated VIEs and subsidiary of the VIEs established in the PRC are subject to statutory income tax at a rate of 25%, unless preferential tax rates were applicable.

The Enterprise Income Tax ("EIT") Law and its implementing rules permit High and New Technology Enterprise ("HNTE") to enjoy a reduced 15% EIT rate. Futu Network Technology (Shenzhen) Co., Ltd., one of the Company's subsidiary, and Shenzhen Futu, the Group's consolidated VIE, obtained the qualification certificate of HNTE under the EIT Law, subject to the tax rate of 15% with a valid period of three years starting from 2019 and 2020, respectively.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

Under the EIT Law enacted by the National People's Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by FIEs in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with PRC.

The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the Group's entities organized outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiary registered outside the PRC should be deemed resident enterprises, the Company and its subsidiary registered outside the PRC will be subject to the PRC income tax, at a rate of 25%.

Dividends paid by the Group's wholly foreign-owned subsidiaries in China to non-PRC-resident enterprises which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and receives approval from the relevant tax authority. The undistributed earnings that are subject to dividend tax are expected to be indefinitely reinvested for the foreseeable future. The Group did not record any withholding tax for its PRC earnings and considered determination of such withholding tax amount not practicable.

Composition of income tax expenses

The following table sets forth current and deferred portion of income tax expenses:

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Current income tax expenses	309,534	259,279
Deferred income tax benefit	(8,266)	(11,707)
Income tax expenses	301,268	247,572

Tax Reconciliation

Reconciliation between the income tax expenses computed by applying the Hong Kong enterprise tax rate to income before income taxes and actual provision were as follows:

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Income before income tax	2,612,670	2,229,064
Tax expenses at Hong Kong profit tax rate of 16.5%	431,091	367,631
Changes of valuation allowance	91,776	(31,771)
Tax effect of permanence differences	9,908	36,881
Effect of income tax jurisdictions other than Hong Kong	(14,548)	27,665
Super deduction of research and development expenses	(37,407)	(61,940)
Final settlement differences	–	(3,614)
Income not subject to tax(1)	(179,552)	(87,280)
Income tax expenses	301,268	247,572

(1) This amount mainly represents tax exemption relating to the offshore income of Futu Securities. The brokerage commission income derived from executing the clients' orders of US listed securities was treated as offshore-sourced and non-taxable on the basis that these transactions were executed outside Hong Kong.

Deferred Tax Assets and Liabilities

Deferred income tax expenses reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets and liabilities are as follows:

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Deferred tax assets		
Net operating loss carryforwards	158,826	124,678
Accrued expenses and others	50,408	65,011
Less: valuation allowance	(169,422)	(137,651)
Total deferred tax assets	39,812	52,038
Set-off of deferred tax liabilities pursuant to set-off provisions	(1,495)	(976)
Net deferred tax assets	38,317	51,062
Total deferred tax liabilities	2,131	14,422
Set-off of deferred tax assets pursuant to set-off provisions	(1,495)	(976)
Net deferred tax liabilities	636	13,446

Movement of Valuation Allowance

	Nine months ended September 30, 2021	2022
	(HK$ in thousands)	
Balance at beginning of the period	67,768	169,422
Additions	92,445	89,878
Reversals	(669)	(121,649)
Balance at end of the period	159,544	137,651

Valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The statutory rate of 25%, 27.98%, 27.87%, 16.5%, 17% or the preferential tax rate of 15%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2021 and September 30, 2022, the Group had net operating loss carryforwards of approximately HK$764,251 thousand and HK$711,365 thousand, respectively, which arose from the subsidiaries, VIEs and the VIEs' subsidiaries established in Hong Kong, the U.S, Singapore and PRC. As of December 31, 2021 and September 30, 2022, of the net operating loss carryforwards, HK$761,417 thousand and HK$711,365 thousand was provided for valuation allowance against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets of accrued expenses and others will not be realized. While the remaining HK$2,834 thousand and nil is expected to be utilized prior to expiration considering future taxable income for respective entities.

Uncertain Tax Position

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. The Group continues to assess the uncertain tax positions in accordance with applicable income tax guidance and based on changes in facts and circumstances.

24. DEFINED CONTRIBUTION PLAN

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. Total contributions by the Group for such employee benefits were RMB76,379 thousand (HK$91,713 thousand) and RMB122,913 thousand (HK$145,474 thousand) for the nine months ended September 30, 2021 and 2022, respectively.

For the employees in Hong Kong, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Included in employee compensation and benefits expenses in the consolidated statements of comprehensive income were HK$1,585 thousand and HK$1,900 thousand of plan contributions for the nine months ended September 30, 2021 and 2022, respectively.

For the employees in Singapore, the Group makes monthly contributions to the mandatory social security savings scheme which serves to meet retirement, housing and healthcare needs. The Employment Act of Singapore requires that the Group makes contributions to the scheme based on certain percentages of the employees' salaries, up to a maximum amount specified by the act. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were SGD207 thousand (HK$1,205 thousand) and SGD406 thousand (HK$2,310 thousand) for the nine months ended September 30, 2021 and 2022, respectively.

For the employees in Australia, the Group makes contributions to the mandatory social security savings scheme which serves to meet retirement needs at least every three months. The Employment Act of Australia requires that the Group makes contributions to the scheme based on certain percentages of the employees' before tax income. The Group has no legal obligation for the scheme beyond the contributions. Total contributions by the Group for such employee benefits were nil and AUD$133 thousand (HK$739 thousand) for the nine months ended September 30, 2021 and 2022, respectively.

25. REGULATORY REQUIREMENTS

The Company's broker-dealer and insurance-broker subsidiaries, Futu Securities, Moomoo Financial Inc., Futu Clearing Inc., Moomoo Financial Singapore Pte. Ltd., Futu Insurance Brokers (Hong Kong) Limited and Futu Securities (Australia) Ltd. are subject to capital requirements determined by its respective regulators.

Futu Securities, the Company's subsidiary located in Hong Kong, was subject to the Securities and Futures (Financial Resources) Rules and the Securities and Futures Ordinance, Futu Securities is required to maintain minimum paid-up share capital and liquid capital.

Moomoo Financial Inc. and Futu Clearing Inc., the Company's subsidiaries located in the United States, were subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, which requires the maintenance of minimum net capital.

Moomoo Financial Singapore Pte. Ltd., the Company's subsidiary located in Singapore, was subject to the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations, which requires the maintenance of financial resource over its total risk requirement.

Futu Insurance Brokers (Hong Kong) Limited, was subject to Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules, which requires minimum net assets.

Futu Securities (Australia) Ltd., the Company's subsidiary located in Australia, was subject to Regulatory Guide 166 Licensing: Financial requirements, which requires the maintenance of surplus liquid funds when licensees hold client money or property.

The tables below summaries the net capital, the requirement and the excess capital for the Group's broker-dealer subsidiaries as of December 31, 2021 and September 30, 2022:

	As of December 31, 2021		
	Net Capital/ Eligible Equity	**Requirement**	**Excess**
		(HK$ in thousands)	
Futu Securities	6,666,092	1,631,080	5,035,012
Futu Clearing Inc.	3,308,395	97,565	3,210,830
Moomoo Financial Inc.	149,871	22,560	127,311
Moomoo Financial Singapore Pte. Ltd.	345,424	156,646	188,778
Futu Insurance Brokers (Hong Kong) Limited	1,718	500	1,218

	As of September 30, 2022		
	Net Capital/ Eligible Equity	**Requirement**	**Excess**
		(HK$ in thousands)	
Futu Securities	5,044,921	1,572,427	3,472,494
Futu Clearing Inc.	4,057,214	321,482	3,735,732
Moomoo Financial Inc.	71,076	22,245	48,831
Moomoo Financial Singapore Pte. Ltd.	685,144	170,813	514,331
Futu Insurance Brokers (Hong Kong) Limited	1,399	500	899
Futu Securities (Australia) Ltd.	60,951	1,214	59,737

Regulatory capital requirements could restrict the operating subsidiaries from expanding their business and declaring dividends if their net capital does not meet regulatory requirements.

As of December 31, 2021 and September 30, 2022, all of the regulated operating subsidiaries were in compliance with their respective regulatory capital requirements.

26. COMMITMENTS AND CONTINGENCIES

Commitments

The Group's commitments primarily related to capital contribution obligation for certain investment funds. Total commitments contracted but not yet reflected in the consolidated financial statements amounted to US$104 million and US$74 million as of December 31, 2021 and September 30, 2022, respectively.

Contingencies

The financial services industry is highly regulated. From time to time, the licensed companies in the financial industry may be required to assist in and/or are subject to inquiries and/or examination by the regulatory authorities of the jurisdiction in where they operate. As of the date of approval of the consolidated financial statements, the Group reviews its regulatory inquiries and other legal proceedings on an ongoing basis and evaluates whether potential regulatory fines are probable, estimable and material and for updating its contingency reserves and disclosures accordingly. As of December 31, 2021 and September 30, 2022, the Group did not make any accrual for the aforementioned loss contingency.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth major related parties of the Group and their relationships with the Group:

Name of Entity or individual	Relationship with the Group
Mr. Leaf Hua Li and his spouse	Principal shareholder and member of his immediate families
Tencent Holdings Limited and its subsidiaries ("Tencent Group")	Principal shareholder
Individual directors and officers and their spouses	Directors or officers of the Group and members of their immediate families

(a) Cash and cash equivalent

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Cash and cash equivalent	372	346

The balance represents the cash deposited by the Group in various payment channels of Tencent Group for funding marketing campaigns, of which could be withdrawn on demand.

(b) Amounts Due to Related Parties

	As of December 31, 2021	As of September 30, 2022
	(HK$ in thousands)	
Payables to Tencent Group in relation to ESOP management services	1,307	313
Payables in relation to cloud equipment and services from Tencent Group	85,887	53,080
SMS channel services from Tencent Group	265	209
Total	87,459	53,602

(c) Transactions with Related Parties

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Cloud service fee	75,575	132,952
Softwares purchased	1,524	1,468
SMS channel service fee	905	823
ESOP management service income	475	510
Other services	108	309
Equipment purchased	6,529	–
Total	85,116	136,062

The Group utilizes the cloud services, equipment and software provided by Tencent Group to process large amount of complicated data in-house, which reduces the risks involved in data storage and transmission. SMS channel services is provided by Tencent Group, including verification code, notification and marketing message services for the Group to reach its end users. Tencent Group provides advertising services to the Group via Tencent Group's social media. The Group also earns revenue from Tencent Group by providing ESOP management service.

(d) Trade related transactions with Related Parties

Included in payables to clients in the consolidated balance sheets as of December 31, 2021 and September 30, 2022, were payables to directors and officers of HK$44,480 thousand and HK$29,322 thousand, respectively. Revenue earned by providing brokerage services and margin loans to directors and officers and their spouses amounts to HK$1,255 thousand and HK$528 thousand for the nine months ended September 30, 2021 and 2022, respectively.

28. DIVIDENDS

No dividend was declared by the Group during the nine months ended September 30, 2021 and 2022.

29. SUBSEQUENT EVENTS

In November, 2022, the Group entered into an acquisition agreement with the aim of acquiring 85% interest of a securities company at a maximum consideration of approximately HK$18,016 thousand.

30. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited interim condensed financial information is prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The effects of material differences prepared under U.S. GAAP and IFRS are as follows:

	Nine months ended September 30,	
	2021	**2022**
	(HK$ in thousands)	
Reconciliation of net income attributable to the Company in the consolidated statements of comprehensive income		
Net income attributable to the Company in the consolidated statements of comprehensive income as reported under U.S. GAAP	2,311,401	1,968,168
IFRS adjustments:		
Issuance costs *(Note (a))*	–	(5,195)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	(HK$ in thousands)	
Operating leases *(Note (b))*	(1,664)	(196)
Share-based compensation *(Note (c))*	(49,247)	(106,549)
Expected credit loss *(Note (d))*	(1,313)	683
Net income attributable to the 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)	
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 *(Note (a))*	(14,336)	(19,531)
Operating leases *(Note (b))*	(8,454)	(7,869)
Expected credit loss *(Note (d))*	(12,342)	(11,624)
Total shareholders' equity as reported under IFRS	20,950,427	20,147,219

(a) Issuance costs

Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds of the offering, shown in equity as a deduction from the proceeds.

Under IFRS, such issuance costs apply a different criterion for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of the Group in the capital market, and were allocated proportionately between the existing and new shares. As a result, the Group recorded issuance costs associated with the listing of existing shares in the profit or loss.

(b) Operating leases

Under U.S. GAAP, for operating leases, the amortization of right-of-use assets and the interest expense element of lease liabilities are recorded together as operating lease expenses, which results in a straight-line recognition effect in the consolidated statements of operations and comprehensive loss.

Under IFRS, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured using the effective interest rate method, which generally yields a "front-loaded" expense with more expense recognized in earlier years of the lease.

(c) Share-based compensation

The Group granted options and restricted share units with service condition only to employees and modified the exercise price of 8,113,145 stock options granted under 2014 Share Incentive Plan to from US$1.20 to US$0.60 on December 30, 2019.

Under U.S. GAAP, the share-based compensation expenses are recognized over the vesting period using straight-line method. While under IFRS, the graded vesting method must be applied, the Group should treat each installment of the award as a separate grant, this means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.

(d) Expected credit loss

The Group is mainly exposed to credit risk associated with loans and advances.

Under U.S. GAAP, prior to January 1, 2020, the Group applied incurred loss methodology for recognizing credit losses. On January 1, 2020, the Group adopted FASB ASC Topic 326 and applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for the loans and advances.

Under IFRS, impairment model of financial assets is an expected loss model. The Group applies a three-stage impairment model to calculate their impairment allowance and recognise their expected credit losses from January 1, 2018 for loans and advances. The Group considers the credit risk characteristics of loans and advances when determining if there is significant increase in credit risk since the initial recognition. For loans and advances with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of exposure at default, probabilities of default and loss given default, based on the past history, existing market conditions as well as forward looking estimates.