FUTU Inc.

Financial Statements and Supplemental Notes
Required by the U.S. Securities and Exchange Commission

Unaudited Financials

For the Period January 1, 2021 through June 30, 2021

FUTU Inc.

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FUTU Inc.

Statement of Financial Condition
June 30, 2021

Assets	
Cash and cash equivalents	$ 7,504,896
Customer control reserve account	4,350,000
Deposit with clearing organization	205,233
Restricted cash	301,172
Marketable securities, at fair value (Cost $)	26,039
Customer omnibus account and other customer debit balances	165,135,904
Affiliate demand note	4,000,000
Affiliate receivables	231,349
Property, software and equipment, net	175,460
Prepaid expenses and other assets	359,743
Security deposits	87,650
Right of use Asset	329,808
Total Assets	**$ 182,707,254**

Liabilities and Shareholder's Equity

Liabilities	
Accounts payable and accrued expenses	$ 302,789
Payable to customers and other customer credit balances	163,023,266
Lease Liability	378,241
Total Liabilities	**$ 163,704,296**
Shareholder's Equity	
Capital stock, $.0001 par value; 2,000 shares authorized	
1,900 shares issued and outstanding	$ 2
Additional paid in capital	23,209,998
Accumulated deficit	(4,207,042)
Total Shareholder's Equity	**$ 19,002,958**
Total Liabilities and Shareholder's equity	**$ 182,707,254**

The accompanying notes are an integral part of this Statement of Financial Condition

FUTU INC.
NOTES TO FINANCIAL STATEMENT
For the Six Months Ended June 30, 2021

1. Organization and Nature of Business

Futu Inc. (the Company) is a Delaware corporation incorporated on December 17, 2015. The Company is a wholly-owned subsidiary of Futu US Inc. (the Parent). The Company is a registered broker under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA") and Securities Investor Protection Corporation ("SIPC"). The Company's broker license was approved by FINRA on January 19, 2018.

Acting as agent, the Company facilitates the purchase and sale of equities and options through a phone-based trading application. The Company also provides retail investors the ability to participate in initial offerings of securities ("IPO").

The Company's headquarter office is located in Palo Alto, CA.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying unaudited statement of financial condition has been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting.

Use of Estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include the allowance for the deferred tax asset.

Cash and Cash Equivalents – The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash Segregated for Regulatory Purposes – The Company is subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which requires it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefits of its customers. In accordance with Rule 15c3-3, the Company had portions of its cash segregated for the exclusive benefits of its customers at June 30, 2021.

Restricted Cash – Restricted cash included cash on deposit with the Company's clearing organization.

2. Summary of Significant Accounting Policies (continued)

Marketable Securities – Marketable securities consist of financial instruments carried at fair value with related unrealized gains or losses recognized in the statement of operations. Marketable securities are those that can readily be sold, either through a stock exchange or through a direct sales arrangement. Profit and loss arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade date basis.

Fair Value of Financial Instruments – Substantially all of the Company's financial instruments are recorded at fair value or contract amounts that approximate fair value. The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, cash segregated for regulatory purposes, and restricted cash, approximate their fair values.

Fair Value Measurement—Definition and Hierarchy – The Company follows the provisions of Accounting Standards Codification ("ASC") 820, *Fair Value Measurement and Disclosures,* for its financial assets and liabilities. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Assets and liabilities recorded at fair value in the statement of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Unadjusted, quoted prices are available in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level 2 — Pricing inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets generally included in this category are stock warrants for which market-based implied volatilities are available, and unregistered common stock.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurement—Definition and Hierarchy (continued) –

Level 3 — Pricing inputs are both significant to the fair value measurement and unobservable. These inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Fair valued assets generally included in this category are stock warrants for which market-based implied volatilities are not available.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Concentrations of Credit Risk – The Company's cash and cash equivalents are held at three major U.S. financial institutions and the balance at times may exceed the federally insured limit. The Company believes it is not exposed to any significant credit risk to cash.

Customer Receivables and Payable – Receivables from and payable to customers include amounts due and owed on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Receivables from customers are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. An allowance is established when collectability is not reasonably assured.

When the receivable from a brokerage client is considered to be impaired, the amount of impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities beneficially owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the statement of financial condition. No valuation allowance for doubtful accounts was necessary as of June 30, 2021.

Property, Software and Equipment – Property, software and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over useful lives of two to five years. Costs of major additions and betterments that extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts and any gain or loss on disposal is recognized.

2. Summary of Significant Accounting Policies (continued)

Contingent Liabilities **–** Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or un-asserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or un-asserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Income Taxes – The Company accounts for its income taxes in accordance with FASB ASC 740, Income Taxes. This standard requires the establishment of a deferred tax asset or liability to recognize the future tax effects of transactions that have not been recognized for tax purposes, including taxable and deductible temporary differences as well as net operating loss and tax credit carryforwards. Deferred tax expenses or benefits are recognized as a result of changes in the tax basis of an asset or liability when measured against its reported amount in the financial statements.

The Company recognizes the benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the tax position. The evaluation of an uncertain tax position is based on factors that include, but are not limited to, changes in the tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, and changes in facts or circumstances related to a tax position. Any changes to these estimates, based on the actual results obtained and/or a change in assumptions, could impact our tax provision in future periods. Interest and penalty charges, if any, related to the unrecognized tax benefits would be classified as a provision for income tax in the statement of income.

3. Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted – There are no new accounting standards that we have not adopted that are material to us as of June 30, 2021.

4. Marketable Securities, at Fair Value

Marketable securities held by the Company are classified as trading securities and stated at their fair market value based on quoted market prices. At June 30, 2021, these securities are carried at their fair market value of $26,039.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2021:

	Fair Value	Level 1	Level 2	Level 3
Marketable Securities	$ 26,039	$ 26,039	$ -	$ -
Total Fair Value	$ 26,039	$ 26,039	$ -	$ -

5. Property, Software and Equipment

Property, software and equipment are recorded net of accumulated depreciation and amortization and summarized by major classification as follows:

	30-Jun-21	Useful Life	Method
Cloud Service	$ 155,528	5 Years	Straight-line
Computer Equipment	56,416	2 Years	Straight-line
Company Automobile	57,398	5 Years	Straight-line
Accumulated Depreciation and Amortization	(93,882)		
Property, Software and Equipment, net	$ 175,460		

6. Income Taxes

The Company has available at June 30, 2021, unused operating loss carry-forwards, which may be applied against future taxable income, resulting in a net deferred tax asset of approximately $1,265,150, that expires in years beginning in 2039. As of June 30, 2021 the Company recognized a full valuation allowance in the amount of $1,265,150 due to the uncertainty of its ultimate utilization.

The Company is required to file income tax returns in both federal and state tax jurisdictions. The Company's tax returns are subject to examination by taxing authorities in the jurisdictions in which it operates in accordance with the normal statutes of limitations in the applicable jurisdiction. For federal purposes, the statute of limitations is three years. Accordingly, the company is no longer subject to examination of federal returns filed more than three years prior to the date of these financial statements. The statute of limitations for state purposes is generally three years, but may exceed this limitation depending upon the jurisdiction involved. Tax returns since 2018 that were filed within the applicable statute remain subject to examination.

7. Related Party Transactions

The Company receives services and technology from other companies which are controlled by common ownership (“Affiliates”). The common ownership in the related party transactions is the sole shareholder of the Company.

In 2020, the Company entered into an expense sharing agreement with Futu Clearing Inc., an Affiliate of the Company. In 2021, the Company entered into a similar expense sharing agreement with another Affiliate, Moomoo Inc. The terms of the expense sharing agreements stipulate that any expenses paid on behalf of the Affiliates, such as salaries, rent, technology data services and various operating expenses will be reimbursed to the Company at cost.

At June 30, 2021, receivables from Futu Clearing Inc. and Moomoo Inc. in connection with the expense sharing agreement were $53,092 and $125,536, respectively.

On September 23, 2020, the Company made an $8,000,000 loan callable on demand to Futu Securities International. The demand note is a non-collateralized, interest bearing note at 1% per annum rate. The loan was made to the Affiliate with the Company’s excess capital. At June 30, 2021, the interest receivable and outstanding balance of the demand note were $45,778 and $4,000,000, respectively.

8. Regulatory Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. At June 30, 2021, the Company had net capital, as defined, of $12,878,610 which was $9,602,827 in excess of its required net capital of $3,275,783.

The Company has elected to use the alternative method permitted by the rule, which requires that the Company maintain net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit items arising from customer transactions, as defined in the SEC Rule 15c3-3.

Advances to parent, dividend payments and other equity withdrawals by the Company are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, the Company is subject to certain notification requirements related to withdrawals of excess net capital.

9. Lease Accounting

The Company follows ASC Topic 842, Leases ("ASC 842"). The guidance increases transparency requiring the recognition of right to use assets and lease liabilities represents a change from previous US GAAP requirements, which do not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significant changed from previous US GAAP requirements.

Based on ASC 842, existing leases of the Company were required to be recognized and measured. Additionally any leases entered into during and after year 2020 were also required to be recognized and measured. In applying ASC 842, the Company continues to follow an accounting policy to not implement the right of use assets and lease liabilities relating to short term leases. Implementation of ASC 842 included an analysis of contracts, including real estate leases and service contracts to identify embedded leases, to determine the initial recognition of the right to use assets and lease liabilities, which required subjective assessment over the determination of the associated discount rates to apply in determining lease liabilities.

The Company leases office space under a non-cancelable operating lease, lease 1, which expired on August 31, 2020 and was extended to August 31, 2022. The Company entered into a lease in 2018 for additional space, lease 2, commencing in February 2019. Lease 2 expired on January 31, 2020 and was extended to August 31, 2022. The Company entered into a new lease in 2020 for additional space, lease 3, commencing in May 2020 and expires on August 2022. At June 30, 2021, the future minimum lease payments under the lease agreement were as follows:

9. Lease Accounting (continued)

	Lease 1	Lease 2	Lease 3	Total
2021	$ 98,728	$ 92,488	$ 109,059	$ 300,275
2022	67,120	64,136	75,440	206,696
Total Minimum Lease Payments	$ 165,848	$ 156,624	$ 184,499	$ 506,971

The Company implemented ASC 842 using the modified retrospective approach. The Company elected to use a rate of 4.75% as its incremental borrowing rate in determining the present value of the right of use asset and lease liability. The following table represents the Company's lease right-of-use assets and lease liabilities in the statement of financial condition. The calculated amounts of the lease right-of-use assets and lease liabilities in the table below are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments.

Assets	
Lease right-of-use assets	$329,808
Liabilities	
Lease liabilities	$378,241

10. Employee Benefit Plan

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to make contributions from their compensation subject to a statutory prescribed annual limit. The Company makes contribution of 3% of the compensation of eligible employees. Employee contributions and earnings thereon vest immediately.

11. Financial Instruments, Off-Balance Sheet Arrangements and Indemnification

Financial Instruments – The Company trades securities that are traded on the United States, Hong Kong, and Shenzhen stock exchanges. As of June 30, 2021, the Company had not entered into any transactions involving financial instruments that would expose the Company to significant related off-balance-sheet risk.

Market risk is primarily caused by movements in market prices of the Company’s trading and investment account securities. The Company’s trading securities and investments are also subject to interest rate volatility. The Company manages market risk through its internal risk management policy and procedures.

11. Financial Instruments, Off-Balance Sheet Arrangements and Indemnification (continued)

Off-Balance Sheet Arrangements – The Company was not a party to any off-balance sheet arrangements during the six months ended June 30, 2021.

Indemnification – In the normal course of its business, the Company indemnifies and guarantees certain service providers against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

12. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the statement of financial condition is issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, except for the following, the Company did not identify any other no-recognized subsequent events that would have required adjustment to the financial statements.

The Demand Note from Futu Securities International was paid in full on July 1 and July 29, 2021. On August 19, 2021, the Company made a $1,000,000 capital distribution to the Parent.

13. COVID-19 Pandemic

The Company continues to monitor the effects of the COVID-19 Pandemic on a national level as well as regionally and locally, and responds accordingly. In addition, the Company provides frequent communication to the clients, employees, and regulators.

Since March 2020, the majority of the Company's employees has been working remotely with only "essential" employees reporting to the office. The Company accomplished this by significantly expanding the use of technology infrastructure that facilitates remote operations. The Company's ability to prevent significant business disruptions is reliant on the continued ability to have the majority of employees work remotely. To date, there have been no significant disruptions to the Company's business or control processes as a result of this change in the working environment. Recent outbreaks in various states indicate that the pandemic will continue to impact the economy and, by extension, the Company's business, well into 2021. The Company anticipates that a large number of employees will continue to work remotely for the foreseeable future.