

MOOMOO FINANCIAL INC.

STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

**Statement of Financial Condition and Supplemental Notes as required by the
U.S. Securities and Exchange Commission**

As of June 30, 2023

MOOMOO FINANCIAL INC.
STATEMENT OF FINANCIAL CONDITION
June 30, 2023
Unaudited

ASSETS

Cash and cash equivalents	\$ 9,476,389
Cash segregated for regulatory purposes	1,000,000
Deposit with clearing organization	1,177,154
Restricted cash	601,839
Marketable securities, at fair value	52,352
Customer receivables	
less allowance for credit losses of \$1,772,516	141,397,412
Due from affiliates	63,236
Software, equipment, furniture and leasehold, net	275,258
Prepaid expenses and other assets	837,559
Right of use asset	1,355,026
Total Assets	<u><u>\$ 156,236,225</u></u>

LIABILITIES AND SHAREHODER'S EQUITY

Liabilities

Customer payables	\$ 128,856,061
Accounts payable, accrued expenses and other liabilities	345,699
Due to affiliate	1,266,310
Lease liabilities	1,481,698
Total Liabilities	<u>131,949,768</u>

Shareholder's Equity

Capital stock, \$.0001 par value; 2,000 shares authorized, 1,900 shares issued and outstanding	2
Additional paid in capital	42,219,520
Accumulated deficit	(17,933,065)
Total Shareholder's Equity	<u>24,286,457</u>

Total Liabilities and Shareholder's equity	<u><u>\$ 156,236,225</u></u>
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The accompanying notes are an integral part of the financial statement.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION
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1. Organization and Nature of Business

Moomoo Financial Inc. (the Company) is a Delaware corporation incorporated on December 17, 2015. The Company changed its legal name from Futu Inc. to Moomoo Financial Inc. on May 27, 2022. 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 public offerings (“IPO”) of securities. The Company offers a cash sweep program which allows customers’ uninvested cash balances to earn interest with program banks insured by the Federal Deposit Insurance Corporation (“FDIC”).

The Company’s headquarters is in Palo Alto, CA.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying statement of financial condition was 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 the statement of financial condition 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 as of the date of the statement of financial condition and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Accordingly, actual results could differ from those estimates. Such estimates include the allowance for credit losses, valuation of certain investments, compensation accruals, and deferred tax asset valuation allowance.

Cash and Cash Equivalents – Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing house and clearing banks. As of June 30, 2022, the Company maintained its cash balances at various financial institutions. These balances are insured by the FDIC up to \$250,000 per institution. The Company is subject to credit risk to the extent that the financial institution with which it conducts business is unable to fulfill its contractual obligations and deposits exceeding the FDIC limits.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
For the Six Months Ended June 30, 2023
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2. Summary of Significant Accounting Policies (continued)

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, on June 30, 2023, the Company had \$1,000,000 of its cash segregated for the exclusive benefits of its customers.

Restricted Cash – Restricted cash included cash on deposit with the Company’s bank.

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:

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
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2. Summary of Significant Accounting Policies (continued)

Fair Value Measurement—Definition and Hierarchy (continued) –

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.

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.

Credit Risk – The Company is exposed to the risk of loss if a customer, counterparty, or issuer fails to perform its obligations under contractual terms (“default risk”). The Company has established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
For the Six Months Ended June 30, 2023
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2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk – The Company’s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. 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 June 30, 2023, the Company did not have any material concentration of credit risk outside the ordinary course of business.

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.

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the statement of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are recorded as provision for credit losses in the statement of operations.

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. A valuation allowance for credit losses was recorded on June 30, 2023.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
For the Six Months Ended June 30, 2023
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2. Summary of Significant Accounting Policies (continued)

Expected Credit Losses – The Company follows FASB ASC Topic 326 – “Financial Instruments – Credit Losses” (“ASC Topic 326”) which 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. Expected credit losses on off-balance sheet credit exposures must be estimated over the contractual period the Company is exposed to credit risk as a result of a present obligation to extend credit. The impact to the current period is not material since the Company’s in-scope assets are primarily subject to collateral maintenance provisions for which the Company elected to apply the practical expedient of reporting the difference between the fair value of the collateral and the amortized cost for the in-scope assets as the allowance for current expected credit losses.

Contingent Liabilities – Certain conditions may exist as of the date the statement of financial condition is 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 statement of financial condition. 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 and financial condition.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
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2. Summary of Significant Accounting Policies (continued)

Software, Equipment, Furniture, and Leasehold Improvements – Software, equipment, furniture, and leasehold improvements are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repair and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Computer equipment is depreciated over three to five years. Furniture and leasehold improvements are depreciated and amortized over the term of the lease.

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 statement of financial condition.

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 the Company's tax provision in future periods.

3. Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted – There are no new accounting standards that have not been adopted by the Company which impact would be material to the statement of financial condition as of June 30, 2023.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
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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. As of June 30, 2023, these securities are carried at their fair market value of \$52,352.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets - Marketable Securities				
Corporate equities	\$ 52,352	\$ -	\$ -	\$ 52,352
	<u>\$ 52,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,352</u>

5. Software, Equipment, Furniture, and Leasehold Improvements

Software, equipment, furniture, and leasehold improvements are recorded net of accumulated depreciation and amortization and summarized by major classification as follows:

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5. Software, Equipment, Furniture, and Leasehold Improvements (continued)

	<u>30-Jun-23</u>	<u>Useful Life</u>	<u>Method</u>
Cloud service	\$ 155,528	5 Years	Straight-line
Computer equipment	240,091	3 Years	Straight-line
Furniture	53,191	5 Years	Straight-line
Company automobile	<u>57,398</u>	5 Years	Straight-line
	506,208		
Accumulated depreciation	<u>(267,850)</u>		
Property, software and equipment, net	<u>\$ 238,358</u>		
Leasehold improvements	\$ 50,781	Lease term	Straight-line
Accumulated amortization	<u>(13,881)</u>		
Leasehold improvements, net	<u>\$ 36,900</u>		
Total fixed assets, net	<u><u>\$ 275,258</u></u>		

6. Income Taxes

The Company has available on June 30, 2023, unused operating loss carry-forwards, which may be applied against future taxable income, resulting in a net deferred tax asset of approximately \$3,038,076, that expires in years beginning in 2040. As of June 30, 2023, the Company recognized a full valuation allowance in the amount of \$3,038,076 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 statute 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 the statement of financial condition. The statute of limitations for state purposes is generally three years but may exceed this limitation depending upon the jurisdiction involved. Tax returns since 2020 that were filed within the applicable statute remain subject to examination.

MOOMOO FINANCIAL INC.
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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 Technologies 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.

As of June 30, 2023, due from Moomoo Technologies Inc. in connection with the expense sharing agreement was \$63,342. As of June 30, 2023, due to Futu Clearing Inc. and Parent were \$102,739 and \$1,109,297, 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. As of June 30, 2023, the Company had net capital, as defined, of \$20,334,695 which was \$17,553,788 in excess of its required net capital of \$2,780,907.

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 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 significantly changed from previous GAAP requirements.

MOOMOO FINANCIAL INC.
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9. Lease Accounting (continued)

Based on ASC 842, existing leases of the Company were required to be recognized and measured. Additionally, any leases entered into during and after the 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.

On February 1, 2022, the Company entered into a 5-year term lease agreement for its new Palo Alto, CA headquarters, commencing on April 1, 2022, and expiring on March 31, 2027.

As of June 30, 2023, the future minimum lease payments under the lease agreement were as follows:

	<u>Minimum Lease Payments</u>
2023	\$ 205,968
2024	421,008
2025	433,608
2026	446,880
2027	<u>112,560</u>
Total Minimum Lease Payments	<u>\$ 1,620,024</u>

The Company implemented ASC 842 using the modified retrospective approach. The following table represents the Company's lease right-of-use assets and lease liabilities in the statement of financial condition.

Assets	
Lease right-of-use assets	\$ 1,355,026
Liabilities	
Lease liabilities	\$ 1,481,698

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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, Shanghai and Shenzhen stock exchanges. As of June 30, 2023, 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.

Off-Balance Sheet Arrangements – The Company was not a party to any off-balance sheet arrangements during the six months ended June 30, 2023.

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 Statement of Financial Condition 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 statement of financial condition for these indemnifications.

MOOMOO FINANCIAL INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)
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12. Commitments, Contingencies and Guarantees

Legal and Regulatory Matters – The Company is subject to certain pending and threatened legal and regulatory actions and proceedings that arise out of the normal course of business. Given the inherent difficulty of predicting the outcome of such matters, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages, the Company is generally not able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of their final resolution or the ultimate settlement. Management believes that the resolution of these matters will not have a material effect, if any, on the Company’s business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, “Contingencies.” As of June 30, 2023, accruals for potential losses related to legal and regulatory actions and proceedings matters were not material.

13. 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 the statement of financial condition, 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 statement of financial condition.

14. 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.