

FUTU Clearing Inc.

Statement of Financial Condition (Unaudited)

As of June 30, 2025

This report is deemed CONFIDENTIAL in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934. A statement of financial condition, bound separately, has been filed with the Securities and Exchange Commission simultaneously herewith as a PUBLIC document.

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FUTU Clearing Inc.

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Statement of Financial Condition
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ASSETS

Cash and cash equivalents	\$ 109,376,002
Cash segregated in accordance with federal laws and other regulations	308,964,427
Receivables from customers	2,678,999,929
Receivables from brokers or dealers	36,043,366
Deposits in and receivables from clearing organizations	202,784,716
Securities owned - At fair value	197,843,491
Securities borrowed	2,405,897,795
Fixed assets , net	1,714,529
Right of use-asset, net	395,871
Receivables from affiliates	4,457,135
Equity Securities-User-held fractional shares	732,305
Other assets	13,479,515
TOTAL ASSETS	\$ 5,960,689,081

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES

Financial Liabilities Measured at FVTPL	\$ 54,881
Securities loaned	4,250,098,853
Payables to customers and PAB	686,120,774
Payables to brokers or dealers & clearing organizations	29,453,376
Securities sold not yet purchased - at fair market value	-
Operating lease liability, net	456,623
Payables to affiliates	16,284,772
Equity Securities-Fractional Share Repurchase Obligations	732,305
Accounts payable and accrued liabilities	19,143,344
TOTAL LIABILITIES	5,002,344,927

Shareholder's Equity

Common stock (1,000 shares authorized, issued and outstanding at \$.0001 par value)	0
Additional paid in capital	488,370,359
Retained earnings	469,973,795
TOTAL SHAREHOLDER'S EQUITY	958,344,154

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 5,960,689,081
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The accompanying notes are an integral part of these financial statements.

FUTU Clearing Inc.

Notes to Financial Statements
June 30, 2025

1. Organization and Nature of Business

FUTU Clearing Inc. (the "Company") was incorporated in the state of Delaware on August 13, 2018. The Company is a wholly owned subsidiary of FUTU US Inc. (the Parent). The Company is a broker dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company received its Broker Dealer approval from SEC and FINRA on May 28, 2019. The Company provides execution, settlement and clearance services of equities and options for correspondent clients affiliated with the Company on an omnibus basis, and economically dependent on its relationship with the affiliates; the absence of this relationship could have a material impact on the Company's reported results.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for 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 at the date of the financial statements and accompanying notes. These estimates and assumptions are based on judgement and the best available information at the time. Accordingly, actual results could differ from these estimates. Such estimates include valuation of certain investments and compensation accruals.

Cash and Cash Equivalents

Cash and cash equivalents consists of money market funds, deposits with banks and 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 houses and clearing banks. The Company's cash is held at financial institutions which are insured by the Federal Deposit Insurance Corporation and at times may exceed federally insured limits. The Company has not experienced losses in such accounts and believes it is not subject to any significant credit risk in cash.

Cash Segregated in Accordance with Federal Laws and Other Regulations

Cash segregated in compliance with federal regulations consist of qualified deposits in special reserve bank accounts for the exclusive benefit of customers and broker dealers in accordance with Rule 15c3-3 of Securities Exchange Act of 1934 (the "Exchange Act") and other regulations.

Receivables from and Payables to Customers

Accounts receivables from and payables to customers are recorded on a settlement date basis and include amounts due on cash and margin transactions. Securities owned by clients are held as collateral for receivables.

Restricted Collateral Managed by Third-Party

The Company provides a 'fully-paid securities lending program' to its customers, under which enrolled customers loan their fully paid and excess margin securities to the Company who in turn lends those securities to various market participants. Under the requirements of Rule 15c3-3, the Company fully collateralized these loans with cash and/or cash equivalents.

Income Taxes

The Company is included in the consolidated federal and state income tax returns filed by the Parent. Pursuant to an expense sharing agreement, the Parent allocates to the Company its share of the consolidated federal and state income tax expense or benefit based upon statutory rates applied to the Company's earnings as if it were filing a separate income tax return.

Deferred tax assets and deferred tax liabilities are recognized for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Deferred taxes are measured to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on deferred tax assets and deferred tax

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Income Taxes (continued)

liabilities, as well as other changes in income tax laws are recognized in the period during which such changes are enacted.

As of June 30, 2025, there were no material temporary differences between financial reporting and tax reporting bases.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed in the Financial Statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense in the current year. After-tax interest and penalties, as well as the related unrecognized tax benefits, are recognized in income tax expense. There were no uncertain positions as of June 30, 2025.

Fixed Assets

Fixed assets includes software and leasehold improvements that are recorded at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis using estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term or the lease.

Financial Instruments-Credit Losses

In June 2016, the FASB issued Accounting Standards Codification "ASC" Topic 326. The ASC provides credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. Management does not anticipate any expected credit losses and, therefore, has not made any allowance for credit losses for the period ending June 30, 2025.

Deposits in and receivables from Clearing Organizations

Deposits with clearing organizations represent cash deposited with central clearing agencies for the purposes of supporting clearing and settlement activities.

Receivables from clearing organizations include amounts due from the Depository Trust Company ("DTC"), National Securities Clearing Corporation ("NSCC") and Options Clearing Corporation ("OCC"). Each has specific industry standard daily reconciliations of their securities activity, net settlements, and a daily update of margin and clearing fund requirements for NSCC and OCC. DTC's clearing fund requirement is updated monthly. There is no prior loss history with these clearing organizations. Risk of loss from clearing organizations is expected to be immaterial over the life of these receivables.

**Deposits in Clearing
Organizations**

OCC	\$	134,171,886
NSCC		64,248,580
DTC		<u>1,393,167</u>
	\$	199,813,632

Receivable from and Payable to Broker-Dealers

Receivables include amounts receivable relating to open transactions, non-customer receivables, and amounts related to unsettled securities activities. Payables include amounts payable relating to open transactions, non-customer payables, and amounts related to unsettled securities activities. These balances are reported net by counterparty when the right of offset exists.

Fair Value Of Financial Instruments

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value provides a framework for measuring fair value that clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an

FUTU Clearing Inc.

Notes to Financial Statements
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Fair Value Of Financial Instruments (continued)

exit price) in an orderly transaction between market participants at the reporting date. The accounting standard establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 - Quoted prices in active markets for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. A financial instrument's level within the fair value hierarchy is based on the lowest level within the fair value hierarchy of any input that is significant to the fair value measurement. The Company had no level 3 assets as of June 30, 2025.

Securities Lending Activities

Stock borrowed and stock loaned transactions are recorded at the amount of cash collateral advanced or received, respectively, with all related securities, collateral, and cash both held at and moving through DTC as appropriate for each counterparty. Stock borrowed transactions require the Company to deposit cash or other collateral with the lender. Stock loaned transactions require the receipt of collateral by the Company in the form of cash in an amount generally in excess of the fair value of stock loaned.

The carrying value of stock borrowed and loaned transactions approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or variable interest rates or to credit risk because stock borrowed and loaned transactions are substantially collateralized.

For securities financing transactions, the Company's policy is to monitor the fair value of the underlying securities as compared with the amounts of cash advanced or received, and the Company may obtain additional collateral from or return collateral pledged to counterparties when appropriate. Securities financing agreements do not create material credit risk due to these collateral provisions and the allowance for credit losses is not material. The collateral maintenance provisions consisting of daily margining of collateral is expected to be maintained into the foreseeable future and any expected losses are assumed to not have a material impact to the Company's statement of financial condition.

All securities financing activities are transacted under master repurchase agreements or master securities lending agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty.

Lines of Credit

The Company has established lines of credit with various counterparties in connection with the Company's stress testing projections. The credit lines are intended to be a liquidity option to address any short term need for liquid capital to fund the Company's operations. The credit lines can be drawn on at any time up to a specified amount for each separate line of credit agreement. Interest will accrue at a specified annual rate for any period in which the Company borrows funds. The secured and uncommitted line of credit will be secured by customers margin collateral. As of June 30, 2025, the Company has no outstanding liability associated with any of its lines of credit.

Lines of Credit (continued)

As of June 30, 2025, the Company maintained the following lines of credit:

	Committed Unsecured	Uncommitted Secured	Total Facility Size	Interest Rate	Collateral	Committed	Expiration
Facility 1 ***	\$ 300,000,000	\$ -	\$ 300,000,000	0.00%	Unsecured	Committed	December 31, 2025
Facility 2	\$ -	\$ 250,000,000	\$ 250,000,000	1.5% plus overnight rate	Secured	Uncommitted	None
Syndicate line	\$ 75,000,000	\$ -	\$ 75,000,000	2.5% plus overnight rate	Unsecured	Committed	January 23, 2026

*** As further disclosed in Note 7, facility 1 is with a related party, Futu Holdings Ltd.

Counterparty Credit Risk

The Company is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms ("default risk"). The Company has established limits for credit exposure, limiting transactions with specific counterparties, maintaining qualifying collateral and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company clears, settles and finances various customer and brokers and dealers securities transactions. These activities may expose the Company to default risk arising from the potential that a client, or counterparty, may fail to satisfy their obligations. The Company seeks to control the risks associated with its customer and brokers and dealers' margin activities by requiring customers and brokers and dealers to maintain collateral in compliance with regulatory and internal guidelines.

Securities owned

The Company carries its securities owned at fair value in accordance with FASB ASC 820 and recorded on a settle date basis. US GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the investment based on available market data. Unobservable inputs are inputs that reflect the Company's assumptions about the facts market participants would use in valuing the investment based on the best information in the circumstances. Additional details of securities owned as of June 30, 2025 is provided within Note 12.

Equity Securities - User-Held Fractional Shares

The Company facilitates customer purchases and sales on a notional or fractional basis through its principal account. Fractional shares held by customers do not meet the criteria for derecognition under ASC 860, Transfers and Servicing, and are accounted for as a secured borrowing with a repurchase obligation. When a customer purchases a fractional share, the Company recognizes the cash received for the user-held fractional share as pledged collateral, recorded as Equity securities - user-held fractional shares, and an offsetting liability to repurchase the share, recorded as Equity securities - repurchase obligations in the Statement of Financial Condition. The Company measures these financial assets and the corresponding financial liabilities for fractional shares at fair value. The fair value of the fractional share financial assets is determined using quoted prices in active markets. The Company earns transaction-based revenue when shares are purchased or sold to fulfill customer fractional share transactions.

Segment Reporting

The Company is designed to engage in a single line of business as a clearing broker-dealer. The Company's segment generates revenues as presented in the annual statement of operations. The Company has identified Chief Executive Officer as its chief operating decision maker ("CODM"), who uses net income to evaluate the results of the business, predominantly in the forecasting process, to manage the Company. Additionally, the CODM uses excess net capital (see Note 5), which is not a measure of profit and loss, to make operational decisions while maintaining capital adequacy, such as whether to reinvest profits or pay dividends. The Company's operations constitute a single operating segment and therefore, a single reportable segment, because the CODM manages the business activities using information of the Company as a whole. The accounting policies used to measure the profit and loss of the segment are the same as those described elsewhere in the summary of significant accounting policies.

Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, in November 2023.

3. Concentrations of Credit Risk

As of June 30 2025, the Company provides clearing services to 5 omnibus client accounts. The Company generated revenue mainly from clearing fee, order flow, margin interest and stock borrow & stock loan interest, respectively 9%, 28%, 16% and 39%. The Company evaluated the receivables and concluded that there is no expected credit risk. The financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The associated risk of concentration is mitigated by having deposits with credit worthy institutions. At certain times, amounts on deposit exceed federal insurance limits. As of June 30, 2025 the amount held on bank deposit was \$64,638,155 in excess of federal insurance limits.

4. Indemnifications

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.

5. Regulatory Requirements

The Company is subject to SEC Uniform Net Capital Rule (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain net capital of \$250,000 or 2% of aggregate debit balances arising from client transactions, as defined whichever is greater. On June 30, 2025, the Company had net capital of \$904,078,564, which was \$838,648,224 in excess of its required net capital of \$65,430,340.

The Company, as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the benefit of customers. At June 30, 2025, the Company had a deposit requirement of \$130,207,694 and maintained a deposit of \$153,107,520.

Certain broker-dealers have chosen to maintain brokerage customer accounts at the Company. To allow these broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Brokers (PAB). At June 30, 2025, the Company calculated a deposit requirement of \$2,427,492 and maintained a deposit of \$2,557,109. The Company made no subsequent withdrawal or deposit.

6. Leases

The Company accounts for its leasing obligations under ASC 842, Leases. This standard requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases under previous U.S. GAAP. The lease asset would reflect a right-to-use asset and the lease liability would reflect the present value of the future lease payments.

As of June 30, 2025, the Company rents office space under operating leases expiring in August 2027, and the Company has no financing leases. The leases call for base rent plus escalations as well as other operating expenses. The weighted average remaining lease term on the leases is approximately 2.2 years and the weighted average discount rate

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Leases (continued)

used to measure the lease liabilities is 3.5%. The following table represents the Company's lease right-of-use assets and lease liabilities on the statement of financial condition.

	<u>As of June 30, 2025</u>	
Assets		
Right of use-asset, net	\$	395,871
Liabilities		
Operating lease liability, net	\$	456,623

The lease is secured by a \$18,021 deposit held by the landlord, which is included in the security deposit on the statement of financial condition. It is accounted for as an operating lease. Maturities of lease liabilities under noncancellable operating leases as of June 30, 2025 are as follows:

		107,152
2025		107,152
2026		220,969
2027		149,523
Total undiscounted lease payments		477,644
Less Imputed Interest		(21,021)
Total lease liability	\$	456,623

Rent and occupancy expenses were \$116,257 for the period ending June 30, 2025.

7. Related Party Transactions

The Company has entered into an expense sharing arrangements with multiple affiliated entities. There are many vendor relationships that service the Company and its affiliates and as such, these expense sharing arrangements memorialize the sharing of various expenses between the Company and the affiliated entities. The Company both allocates its expenses it pays on behalf of its affiliates and is allocated expenses in which the affiliates pay on its behalf. The terms of these arrangements provide that any expenses paid on behalf of the Company or another entity, for the various operating expenses are to be charged or recharged to at cost.

At June 30, 2025 the Company owed \$16,284,772 to its affiliates for shared and accrued expenses, included in payable to affiliates in the accompanying statement of financial condition and was owed \$99,112 from its affiliates for shared and accrued expenses, which is included in receivables from affiliates in the accompanying statement of financial condition.

FUTU US, Inc. ("Parent") - The Company has an expense sharing agreement with the Parent. Futu Clearing has its own employees. Some of these employees are shared with other affiliated entities and some of the employees are shared from other affiliated entities. The shared portion of employee payroll is charged to/from the other affiliated entities via the Parent. For the period ended June 30, 2025 the net shared portion that was recharged to the Parent was \$1,372,460 which is included in the salaries and related costs on the Statement of Operations. Additionally, the Company accrues its tax liability to the Parent since the Parent files one consolidated tax return which includes the results of the company. The vendor expenses are allocated according to headcount or usage to other affiliated entities via the Parent. At June 30, 2025 the Company has a payable of \$15,546,169 of which a net of \$1,343,826 for shared expenses and employee costs, and \$14,202,344 related to accrued tax payable.

Futu Holdings Ltd. ("FUTU Holdings") - The Company has an unsecured revolving line of credit with FUTU Holdings for \$300 million. The interest rate is 0.00% and it matures December 31, 2026 unless either party gives notice of termination at an earlier date. As of June 30, 2025 the Company has no outstanding balance.

ShenZhen Futu Network Technology Co., Ltd. ("FUTU SZ") - The Company entered into an agreement with FUTU SZ to license a proprietary order management system owned by FUTU SZ ("The OMS") on July 1, 2022 for annual licensing fee of \$12,000. The OMS provides market data, analytic tools and order entry functions to The Company's clients. The agreement will remain in full force and effect until either party terminates.

Futu Securities International (Hong Kong) Limited is a Foreign Financial Institution affiliate ("FUTU HK") and has a customer account that the Company holds. FUTU HK has one account with the Company where it holds cash and

Related Party Transactions (continued)

securities. FUTU HK uses the Company as its clearing broker to custody and clear trades for which the Company charges Clearing Fees. FUTU HK Omnibus account also borrows money from the Company, pledging its securities as collateral in the form of a margin loan for which the Company charges interest. For the period ended June 30, 2025 the Company earned \$22,204,540 in clearing fee revenue, of which \$2,355,213 was due and outstanding at June 30, 2025 and included in receivable from affiliates in the accompanying statement of financial condition. At June 30, 2025, FUTU HK has a margin debit balance of \$2,594,537,283. Additionally, due to SEC Rule 15c3-3, the Company is required to gross-up certain credit items, or payables, associate with the FUTU HKs customer account. For the period ended June 30, 2025, the Company has a payable to related party customer balance in the amount of \$395,373,957 which is reflected in payables to customers in the statement of financial condition.

Moomoo Financial Inc, a U.S. broker-dealer affiliate ("MFI") (formerly FUTU Inc) clears its customers' transactions through the Company on an Omnibus basis through an Omnibus Account for the Exclusive Benefit of MFI's Customers that the Company holds. The account holds cash and securities. The Company charges Clearing Fees to MFI and earns payment for order flow on MFI's Omnibus Account transactions. The Company shares certain vendor expenses according to ESA. For the period ended June 30, 2025, the Company earned \$601,343 in clearing fee revenue. At June 30, 2025, MFI's Omnibus Account had free credit balance of \$242,731,664 and short credit balance of \$10,274,219 of which are included in payables to customers in the statement of financial condition. At the period ended June 30, 2025, the Company has a net receivable of \$158,352 of which \$61,715 was shared expenses and \$96,637 was the clearing fee receivable.

Moomoo Financial Singapore Ptd. Ltd is a Foreign Financial Institution affiliate ("Moomoo SG") and has a customer account that The Company holds for its customers cash and securities on an omnibus basis. The Company, as the clearing broker and custodian, charges clearing fee to clear trades for Moomoo SG. For the period ended June 30, 2025, the Company earned \$3,199,574 in clearing fee revenue, of which 1,895,284 was due and outstanding at June 30, 2025 and included in receivable from affiliates in the accompanying statement of financial condition. At June 30, 2025, Moomoo SG's omnibus account has margin debit balance of \$80,264,853 and short credit balance of \$44,018,669 which are included in payables to customers in the statement of financial condition.

Futu Securities (Australia) Ltd. is a Foreign Financial Institution affiliate ("Futu AU") and has a customer account that The Company holds for its customers cash and securities on an omnibus basis. The Company, as the clearing broker and custodian, charges clearing fee to clear trades for Futu AU. For the period ended June 30, 2025, the Company earned \$23,347 in clearing fee revenue, of which \$10,889 was due and outstanding at June 30, 2025 and included in receivable from affiliates in the accompanying statement of financial condition. At June 30, 2025, Futu AU's omnibus account has free credit balance of \$151,089 which is included in payables to customers in the statement of financial condition.

Moomoo Securities Japan Co., Ltd. is a Foreign Financial Institution affiliate ("Moomoo JP") and has a customer account that the Company holds for its customers cash and securities on an omnibus basis. The Company, as the clearing broker and custodian, charges clearing fee to clear trades for Moomoo JP. For the period ended June 30, 2025, the Company earned \$1,449,817 in clearing fee revenue, and collected on trades in the omnibus account, and there was an outstanding payable \$673,597 due to the transfer pricing adjustment. At June 30, 2025, Moomoo JP's omnibus account has debit balance of \$2,542,391 and short credit balance of \$1,132,955 which are included in payables to customers in the statement of financial condition.

At June 30, 2025, the Company also held Proprietary Accounts for Broker-Dealers ("PAB") on behalf of its affiliates, Futu HK, MFI, Moomoo SG, Futu AU and Moomoo Japan. These amounts were \$843,590, \$770,240, \$352,282, \$349,980, \$105,314 respectively. These amounts have been reserved for in a Special Reserve Account for the Exclusive Benefit for PAB, as required under SEA Rule 15c3-3.

The Company employees are rewarded with stock option compensation as part of employee benefits plan with a related party. The stock option compensations is further disclosed in Note 10.

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8. Income Taxes

The current and deferred components of the income tax expense included in the financial statements, for the period ended June 30, 2025 are as follows:

	Current	Deferred	Total
Federal	38,514,681	-	38,514,681
Total	38,514,681	-	38,514,681

The Company is part of a consolidated income tax filing with the Parent. The tax liability owed to the Parent by the Company of \$14,202,344 has been included in the payables to affiliates on the statement of financial condition.

9. Fixed Assets

Fixed assets, net of accumulated depreciation, consisted of the following as of June 30, 2025:

Software license (5 years useful life)	\$ 2,846,521
Leasehold Improvements (5 years useful life)	64,332
Less: Accumulated depreciation	(1,196,324)
Net fixed assets	\$ 1,714,529

Depreciation and amortization expense was \$1,196,324 for the period ended June 30, 2025.

10. Employee Benefit Plan

The Company's parent provides Restricted Stock Units to its employees and the employees of all of its subsidiaries. Under the Plan, the employees earn vested units as throughout the term of their employment. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements. For the period ended June 30, 2025, the Company recorded stock based compensation in the amount of \$1,289,758 that was not intended to be settled in cash with the Parent and thereby recorded as an allocation from the Parent. The Restricted Stock Units compensation is included in salaries and related to costs on the statement of operations.

11. Netting of Financial Assets and Financial Liabilities

Substantially all of the Company's securities borrowing and securities lending activity is transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for financial statement purposes, the Company does not net balances related to these financial instruments. These financial instruments are presented on a gross basis in the Statement of Financial Condition.

The potential effect of rights of setoff associated with the Company's recognized assets and liabilities is as follows:

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition ¹	Collateral Receive or Pledged Net Amount ²	Net Amount ³
As of June 30, 2025					
Assets					
Securities borrowed	\$ 2,405,897,795	\$ -	\$ 2,405,897,795	\$ (2,292,354,047)	\$ 113,543,748
Liabilities					
Securities loaned	\$ 4,250,098,853	\$ -	\$ 4,250,098,853	\$ (3,965,202,994)	\$ 284,895,859

1. Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.

2. Represents the fair value of collateral the Company had received or pledged under enforceable master agreements.

3. Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

12. Fair Value Of Financial Instruments

The following table represents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30, 2025:

	Level 1	Level 2	Level 3	Total
Assets				
U.S. Treasuries	\$ 195,991,569	\$ -	\$ -	\$ 195,991,569
DTCC Common Stock	-	-	1,440,938	1,440,938
DTCC Preferred Stock	-	-	259,982	259,982
Equities	151,003	-	-	151,003
Total Securities, at fair value	<u>\$ 196,142,571</u>	<u>\$ -</u>	<u>\$ 1,700,920</u>	<u>\$ 197,843,491</u>
Liabilities				
Equities	\$ 54,881	\$ -	\$ -	\$ 54,881
Total Securities, at fair value	<u>\$ 54,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,881</u>

13. Commitments and Contingencies

The Company is subject to lawsuits, arbitration, claims, and other legal proceedings in connection with its business. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's statement of financial condition. Management is of the opinion that the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the statement of financial condition of the Company.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's statement of financial condition. However, the Company is unable to predict the ultimate outcome of these matters.

14. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Company's clearing agreements with broker-dealers for which it provides clearing services indemnify the Company if customers fail to satisfy their contractual obligation.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily, and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the

14. Financial Instruments with Off-Balance-Sheet Risk (continued)

instrument. It is the policy to review, as necessary, the credit standing of each counterparty.

The Company temporarily loans securities to other broker-dealers in connection with its business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations.

The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral when necessary.

The Company temporarily borrows securities from other broker-dealers in connection with its business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the fair value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring collateral to be returned by the counterparties when necessary.

15. Subsequent Event

The Company has evaluated events through the date on which the Statement of Financial Condition was issued. There have been no material subsequent events that occurred during this period that could require an adjustment to these financial statements, other than the item below.

On July 31, 2025, the Company paid a \$7,500,000 dividend to Futu US Inc.