

**Notice under Section 205 of the
Securities and Futures Ordinance
Cap. 571 ("Ordinance")**

It appears to the Securities and Futures Commission ("**Commission**"), for the reasons set out in the Statement of Reasons of even date, that the Commission should exercise the powers conferred by section 205 of the Ordinance.

THE COMMISSION HEREBY GIVES NOTICE THAT:

Except with the prior written consent of the Commission, such consent to be granted by any one Executive Director of the Commission:

1. Pursuant to section 205(1)(a) of the Ordinance, Profittech Securities Limited ("**Specified Corporation**") is prohibited from disposing of or dealing with, or assisting, counselling or procuring another person to dispose of or deal with, the cash in bank account number 1 ("**Account**") held by the Specified Corporation with Bank of China (Hong Kong) Limited, in any manner, except for:
 - a. complying with the requirements of the Commission as set out in paragraph 2 below; and
 - b. with prior written notification to the Commission, paying operational expenses incurred by the Specified Corporation in the ordinary course of business, the aggregate total of which should not be more than HK\$300,000 per calendar month.
2. Pursuant to section 205(1)(b) of the Ordinance, the Specified Corporation is required to:
 - a. as soon as practicable and within two business days from the day this Notice is served upon the Specified Corporation, apply the cash in the Account to fully repay its debt to Broker A pursuant to its client agreement with Broker A dated 22 March 2022;
 - b. upon the completion of (a) above, immediately and no later than one business day thereafter, withdraw shares of Company Z in margin trading account number 2 held by the Specified Corporation with Broker A; and
 - c. as soon as practicable return all client assets¹ to the Specified Corporation's clients² on whose behalf it holds the assets in an orderly manner, and, where applicable, apply for payment of the client assets into the court under the Trustee Ordinance (Cap. 29).

¹ As defined under paragraph 1 of Schedule 1 to the Ordinance.

² *Ibid*

3. Pursuant to the provisions of section 217 of the Ordinance, an application may be made to the Securities and Futures Appeals Tribunal for a review of the Commission's decision to impose the prohibitions and requirements by this Notice. Such application must be made within twenty-one days after the day on which this Notice is served on the Specified Corporation. Further, pursuant to the provisions of section 208 of the Ordinance, the Specified Corporation or a person affected by the prohibitions and requirements may apply to the Commission for the prohibitions and requirements imposed by this Notice to be withdrawn, substituted or varied.

This Notice takes effect at the time of service upon the Specified Corporation.

Dated this 7th day of November 2023

For and on behalf of
Securities and Futures Commission

Julia Leung
Chief Executive Officer

Statement of Reasons
Pursuant to Section 209(2) of the Securities and Futures Ordinance
(Cap. 571) (“Ordinance”)

1. Profitech Securities Limited (“**Specified Corporation**”) is a corporation licensed under the Ordinance to carry on Type 1 regulated activity. It is not an exchange participant. It provides securities brokerage services to its clients through omnibus trading accounts opened with its execution brokers, including Broker A.
2. It appears to the Securities and Futures Commission (“**Commission**”) that:
 - (a) the property of the Specified Corporation or its clients might be dissipated, transferred or otherwise dealt with in a manner prejudicial to the interest of any of its clients or creditors;
 - (b) the Specified Corporation is not a fit and proper person to remain licensed or is not a fit and proper person to carry on any regulated activity for which it is licensed;
 - (c) the Specified Corporation has failed to comply with the requirement specified in section 180(2) of the Ordinance; and
 - (d) the imposition of the prohibition and requirements set out in the Notice issued by the Commission of even date under section 205 of the Ordinance (“**Notice**”) is desirable in the interest of the investing public or in the public interest.
3. The Commission has reached this view on the basis of the following matters:
 - (a) the Specified Corporation’s protracted breach of the **Securities and Futures (Client Securities) Rules (Cap. 571H) (“CSR”)**;
 - (b) the Specified Corporation’s reluctance to apply its house assets to fully repay its debt to Broker A (“**Broker Debt**”) and address the impending risk of forced liquidation by Broker A, despite written commitments to do so; and
 - (c) the Specified Corporation’s financial and operational viability as a going concern.

The Specified Corporation’s protracted breach of the CSR

4. The Specified Corporation has since July 2022 repledged client securities collateral (“**Repledged Assets**”) to Broker A for a margin loan without the relevant clients’ standing authority, in breach of sections 5 and 10(1) of the CSR.

5. The Repledged Assets belonged to margin clients of the Specified Corporation who had no trading activities or borrowing from the Specified Corporation. The margin loan obtained from Broker A secured by the Repledged Assets was entirely utilised by the Specified Corporation to finance the continuous holding or acquisition of GEM stocks by two rolling balance cash clients of the Specified Corporation (each a “Rolling Balance Cash Client”).
6. Despite the Commission’s repeated reminders since September 2022¹ to the Specified Corporation to fully repay Broker A and remedy its improper repledging of client securities collateral, the Specified Corporation has failed to rectify the CSR breach to date. Despite written commitments to do so, the Specified Corporation has not been proactive in recovering receivables from the two Rolling Balance Cash Clients and is reluctant to apply its house assets to repay its margin loan at Broker A.
7. Specifically, the Specified Corporation and its senior management had confirmed and undertaken to the Commission, among other things:
 - (a) in the Confirmation and Undertaking dated 2 December 2022, that they would as soon as practicable:
 - (i) recover all outstanding receivables from its clients;
 - (ii) withdraw from Broker A all pledged client securities and repledged securities collateral for onward safe custody; and
 - (iii) return all client assets to its clients on whose behalf it holds the assets in an orderly manner.

However, the Specified Corporation failed to comply with the said undertaking.

- (b) in the Confirmation and Undertaking dated 15 September 2023, that they would:
 - (i) take all reasonable measures to recover all outstanding receivables from all of its clients, and use the recovered proceeds and any of its house resources (including house monies) to fully repay its creditors including Broker A on or before 29 September 2023;

¹ The Commission has had **umpteen** calls and email correspondence with the Specified Corporation since September 2022 requiring it to rectify its improper repledging practice. The Commission also repeatedly raised its concerns with the Specified Corporation in its **management letters dated 13 October 2022, 21 November 2022, 7 February 2023 and 1 September 2023**. The Commission requested the Specified Corporation and its senior management to execute a Confirmation and Undertaking in December 2022 and September 2023 to garner their commitments to rectify its improper repledging practice.

- (ii) withdraw from Broker A all repledged securities collateral of one of its margin clients by 6 October 2023; and
- (iii) prior to fully repaying its debts to its creditors (including Broker A), as soon as practicable return all client assets to its clients on whose behalf it holds the assets in an orderly manner.

However, the Specified Corporation did not honour such commitments, despite having sufficient house monies to do so.

The Specified Corporation's reluctance to apply its house assets to fully repay the Broker Debt and address the impending risk of forced liquidation by Broker A despite written commitments to do so

- 8. On 12 October 2023, the Specified Corporation notified the Commission that Broker A would no longer grant a margin facility for its Repledged Assets, and that Broker A had issued a margin call on 11 October 2023 requesting the Specified Corporation to repay the Broker Debt in full, which amounted to around HK\$5.6 million at the time. As at the date hereof, the Broker Debt amounts to around HK\$3 million. As noted in paragraph 7 above, the Specified Corporation has failed to honour the terms of the Confirmation and Undertaking dated 15 September 2023 to also apply its house resources to settle the outstanding Broker Debt. Consequently, the margin call of around HK\$3 million remains unsettled to date.
- 9. The Commission is gravely concerned about the risk of forced liquidation by Broker A if the Specified Corporation fails to meet the margin call. The securities collateral that are at risk of forced liquidation include:
 - (a) Shares of Company Z that belong to one margin client of the Specified Corporation, with a total market value of X as of 25 October 2023, which have been improperly repledged in the Specified Corporation's omnibus margin trading account at Broker A; and
 - (b) Shares of Company Z, with a total market value of Y as of 25 October 2023, which are held in the Specified Corporation's omnibus cash trading account at Broker A. These shares, though not currently repledged, might also be subject to forced liquidation by Broker A if the proceeds from the forced liquidation of the shares of Company Z mentioned in sub-paragraph (a) above cannot fully settle Broker A's margin call.
- 10. The total amount of client securities collateral that are at risk (see paragraph 9 above) is significant and constitutes a substantial portion of issued shares of Company Z. The shares of Company Z were thinly traded on the market in the past 30 trading days up to 25 October 2023. The impending forced liquidation by Broker A could therefore seriously jeopardise the interest of (a) the margin client (due to the loss of shares and voting rights in Company Z);

and (b) other shareholders of Company Z (due to the likely downward pressure on the share price following a large scale forced liquidation amid thin liquidity).

11. The need for the Specified Corporation to take immediate action to repay the Broker Debt in full to avert any impending forced liquidation is pressing given that Broker A had already issued a margin call on 11 October 2023, i.e. more than 3 weeks ago.
12. The Specified Corporation had house monies of around HK\$8.9 million as of 25 October 2023. However, the Specified Corporation indicated to the Commission on 26 and 27 October 2023 that it did not intend to apply its house monies to meet Broker A's margin call. The Specified Corporation would like to first recover the remaining receivables from the two Rolling Balance Cash Clients through legal means before repaying Broker A. Yet, there is no certainty and clarity as to whether and if so, when the Specified Corporation will be able to recover the receivables from the two Rolling Balance Cash Clients. Even if the Specified Corporation manages to recover the receivables in the sum of HK\$2.8 million from the Rolling Balance Cash Clients, they will still not be sufficient to settle the remaining margin call of approximately HK\$3 million in full. There is no assurance that the Specified Corporation will by that time become willing to apply its house assets to make up for the shortfall and meet the margin call.

The Specified Corporation's financial and operational viability as a going concern

13. The Specified Corporation had breached the required liquid capital requirement under the Securities and Futures (Financial Resources) Rules (Cap. 571N) ("FRR") since July 2022, and it had not taken any proactive actions to improve its financial position during the past year. The Specified Corporation improved its liquidity when its shareholders deposited HK\$5 million in August 2023, but on 26 and 27 October 2023 it indicated to the Commission that the deposited funds would be withdrawn shortly. The Commission therefore has serious concerns on the liquidity and financial viability of the Specified Corporation to continue operating as a going concern if the HK\$5 million deposit is withdrawn after the Specified Corporation's house assets are used to settle the Broker Debt.
14. Meanwhile, the Specified Corporation notified the Commission that one of the two responsible officers resigned on 27 October 2023. Further, three out of four directors of the Specified Corporation also resigned and left the firm on 4 November 2023. The only remaining responsible officer and director are not authorized signatories for the Account and the margin trading account at Broker A and so will not be able to give instructions or operate the Specified Corporation's relevant accounts. As such, the departures raise concerns on how the Specified Corporation will be able to properly safekeep, handle and return client assets.

15. The Specified Corporation had committed and undertaken to the Commission in the Confirmation and Undertaking dated 2 December 2022 and 15 September 2023 to as soon as practicable return all client assets to its clients on whose behalf it holds the assets in an orderly manner, but have to date failed to do so. As of 26 October 2023, the Specified Corporation still held around HK\$0.2 million client monies and HK\$88.7 million client securities for around 60 clients (most of whom were uncontactable). Given the issues set out in paragraphs 13 and 14 above, the Commission has grave concerns on the Specified Corporation's financial and operational viability as a going concern, and whether it would have sufficient financial and human resources to return client assets (including to handle the payment of unclaimed client assets into court) in an orderly manner.

Conclusion

16. In light of the foregoing, the Commission has concerns regarding the safekeeping of client assets of the Specified Corporation, given the improper repledging of the Repledged Assets for a protracted period of over 15 months. The protracted CSR breach, and the Specified Corporation's failure to rectify it in a timely manner, despite written commitments to do so, call into question the Specified Corporation's commitment and ability to act in the best interests of its clients, the honesty, reliability and integrity of the Specified Corporation, its ability to carry on regulated activities competently, honestly and fairly, and therefore its fitness and properness to remain licensed.
17. In the circumstances, the Commission considers it desirable in the interest of the margin client of the Specified Corporation, and more particularly in the interest of preserving its assets, and in the wider interest of the investing public or in the public interest, to impose on the Specified Corporation the prohibition and requirements stipulated in the Notice.

Dated this 7th day of November 2023

For and on behalf of
Securities and Futures Commission

Julia Leung
Chief Executive Officer