

To: **The Company**

X.J. Electrics (Hu Bei) Co., Ltd

湖北香江電器股份有限公司

Kai Di Road

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The Sole Sponsor-Overall Coordinator

Sinolink Securities (Hong Kong) Company Limited

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Hong Kong

(for itself and on behalf of the Hong Kong Underwriters and the Capital
Market Intermediaries)

Date: 17 June 2025

Brief Notes of Advice on Third Party Payments

(Re: Project Godspeed)

1. Instructing Solicitors act for X.J. Electrics (Hu Bei) Co., Ltd (湖北香江電器股份有限公司) (the “**Company**”, together with its subsidiaries, the “**Group**”) in relation to its proposed H-share listing (the “**Proposed Listing**”) on Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).
2. The Group is a manufacturer of lifestyle household goods in the People's

Republic of China and has two Hong Kong subsidiaries, namely, X.J. Group (HK) Limited (湖北香江電器(香港)股份有限公司) (“**X.J. Group (HK)**”) and **THS Industrial Limited** (泰鴻升實業有限公司) (“**THS Industrial**”, together with X.J. Group (HK), the “**Hong Kong Companies**”). The Hong Kong Companies are principally engaging in the sales of products to international customers.

3. I am instructed that:

- (1) From 1 January 2021 to 31 December 2024 (the “**Track Record Period**”), certain customers of the Group (the “**Relevant Customers**”) entered into sales contracts with the Hong Kong Companies and settled their payments through independent third-party payors (the “**Third-party Payors**”) to the bank accounts of the Hong Kong Companies.
- (2) As confirmed by the Company, the Third-party Payors primarily consisted of business partners of the Relevant Customers who may be third-party financial institutions, third-party procurement or logistic agencies, and customers of the Relevant Customers (the “**Third-party Payment Arrangements**”).
- (3) As confirmed by the Company, the Group also received payments for settlement of receivables under sales contracts from banks under factoring agreements and affiliated companies of customers which are under the same corporate group (together, “**Payments from Connected Third-parties**”).
- (4) As confirmed by the directors of the Company, all Third-party Payors are independent of the Group.

- (5) During the Track Record Period and up to the date of this email, no litigation or claim had been made by the Third-party Payors in connection with the Third-party Payment Arrangements.
4. I am specifically asked to advise on:
- (1) Legality of the Third-party Payment Arrangements (“**Issue 1**”);
 - (2) Money laundering risk (“**Issue 2**”); and
 - (3) Litigation risk, including possible claims from the Third-party Payors for return of funds or from liquidators of the Third-party Payors if the Third-party Payors were to become insolvent and were presented with a winding up petition or a bankruptcy petition (“**Issue 3**”).

Issue (1)

5. There is no law prohibiting the Third-party Payment Arrangements. It is a fundamental principle that one may make its own arrangement on payment in any business transaction unless prohibited by the laws.
6. Therefore, the Third-party Payment Arrangements are, *prima facie*, legal.

Issue (2)

7. The receipt of money from a third party may give rise to the risk of money laundering.
8. The main legislations in Hong Kong that concern money laundering are:

- (1) Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Cap. 615 (“AMLO”); and
- (2) Organized and Serious Crimes Ordinance, Cap. 455 (“OSCO”);
9. The AMLO imposes requirements relating to customer due diligence and record-keeping on authorized institutions. AMLO is therefore not applicable to the Hong Kong Companies.
10. Section 25(1) of OSCO provides that a person commits an offence if, “*knowing or having reasonable grounds to believe that any property, in whole or in part, directly or indirectly, represents any person’s proceeds of an indictable offence*”, he or she deals with that property. Pursuant to section 25(3) of OSCO, a person commits the offence is liable on conviction upon indictment to a fine of HK\$5,000,000 and to imprisonment for 14 years; or on summary conviction to fine of HK\$500,000 and to imprisonment for 3 years.
11. Section 25A of OSCO imposes a legal obligation on a person to make a report to the authorized officers if that person knows or suspects that any funds or property are proceeds of crime. It is a defence if there is a disclosure of knowledge or suspicion that the funds or property are proceeds of crime to the authorized officers as set out in Section 25A of OSCO.
12. In decided cases, the test to be used for assessing whether a person has committed money laundering offence is by the “*reasonable grounds to believe*”.¹ The relevant questions are (1) are there grounds for believing that the property in question represent the proceed of an indictable office? and (2) are the ground(s) reasonable? The Court of Final Appeal emphasized that “*having reasonable grounds to believe*” limb should be

¹ HKSAR v. Pang Hung Fai (2014) 17 HKCFAR 798

“grounds which WOULD have led the defendant to believe the property he dealt with represented in whole or in part directly or indirectly proceeds of an indictable offence”; NOT *“mere grounds”* or “grounds sufficient for the defendant to so believe”. Further, such grounds must be reasonable, i.e., anyone looking at those grounds would so believe. Therefore, the perception and evaluation by the defendant should be taken into account in the test of reasonableness.

13. Regarding the grounds for believing that the property in question represents the proceeds of an indictable offence, the accused’s perception and evaluation can be taken into account. The test is whether any reasonable person looking at the grounds would believe that the property dealt with represents the proceeds of an indictable offence. This test was further upheld in a subsequent CFA judgment.²
14. In respect of the Third-party Payment Arrangements involving Payments from Connected Third-parties, I consider that it is plain and obvious that they do not demonstrate money laundering risk due to the proximate relationship between the Group’s customers and their affiliated companies. Settlement of payment by one’s affiliated companies is common and in any event, it does not give rise to any reasonable doubt to the source of funds.
15. In respect of the Third-party Payment Arrangements involving other third parties, I am of the opinion that the Hong Kong Companies were not in breach of the laws concerning money laundering in light of the following relevant circumstances:
 - (1) The business transactions involved were justifiable and genuine. The business transactions and payments were supported by

² HK SAR v Carson Yeung (2016) 19 HKCFAR 279

documentation proof, including purchase orders, invoices, payment confirmation notices and bank-in advices.

- (2) The business transactions involved comprised an insignificant portion of the overall business of the Hong Kong Companies by any yardstick:

	2021	2022	2023	2024
Total revenues	\$1,480M	\$1,097M	\$1,188M	\$1,502M
Total revenues involving the Third-party Payment Arrangements	\$4.4M	\$7.4M	\$6.1M	\$1.5M
Ratio:	0.30%	0.67%	0.51%	0.10%

- (3) For transactions involved, the Hong Kong Companies would require the Relevant Customers to give a written confirmation to declare:

- (a) its relationship with the third-party payor in accordance with the following categorization:

NO.	Categories	The Corresponding Number	Relationship with Remitting Party
1	Affiliated party paid on behalf of the purchase order signing party	1.1	Affiliated company (parent-subsiidiary/sister company) paid on behalf of the purchase order signing party
		1.2	The controlling shareholder individually paid on behalf of the purchase order signing party
		1.3	The operator individually paid on behalf of the purchase order signing party
2	Business partner paid on behalf of the purchase order signing party	2.1	Third party financial institutions
		2.2	Third party purchasing agencies
		2.3	Third party logistics agencies
		2.4	Downstream customers

- (b) the fact that there was no dispute or difference regarding the authorization for payment by the third-party payor.

- (4) The Hong Kong Companies would try their best to implement the

procedure as mentioned in subparagraph (3) above. Based on available records, about 83.69% of the overall transactions involving Third-party Payment Arrangements (under Categories 2.1 to 2.4) were supported by the referred written confirmation. As confirmed by the Company, the remaining cases related to either (a) the written confirmation was accidentally lost / destroyed; (b) the Relevant Customers only provided oral confirmation; or (c) that the confirmation procedure was inadvertently overlooked by the responsible officer.

- (5) On some occasions (about 31.62% under Categories 2.1 to 2.4), the Hong Kong Companies also received a confirmation from the Third-party Payors.
 - (6) During the Track Record Period, the Company had not experienced any dispute as to the payments settled through the Third-party Payors and there was no claim from any Third-party Payors or Relevant Customers regarding the return or refund of funds the Hong Kong Companies received to settle the payments had been made to the Hong Kong Companies.
 - (7) The Hong Kong Companies were not aware of any suspicious transactions in connection with any of the Third-party Payment Arrangements.
16. The courts will now take into account the subjective and honest belief of an accused regarding the transaction in question. One's perception and evaluation of receiving payments from third parties should be taken into account. The circumstances stated in the preceding paragraph impressed me that the Hong Kong Companies were not turning a blind eye to the Third-party Payment Arrangements. The Third-party Payment

Arrangements have also been adopted many times and for many years with no dispute arising. In my view, there was no ground for the Company to believe the Third-party Payment Arrangements as instructed by the Relevant Customers involved the proceeds of an indictable offence.

17. Therefore, on Issue (2), I consider that the risk of being accused or prosecuted of money laundering is remote and it does not pose any risk to the Company's business.

Issue (3)

18. Pursuant to the Companies (Winding Up and Miscellaneous Provisions Ordinance, Cap. 32 ("WUO"), courts have the power to set aside transactions at an undervalue³ or unfair preference⁴ given to a person who is connected to the company. The court is able to make orders to restore the company to its pre-transaction position or restore the company to the position it would have been in had the unfair preference not been made.
19. The court will have the power to set aside the transaction involving undervalue and unfair preference if the transaction is entered into or the unfair preference was given at the time stated⁵ as below:
- (1) for a transaction at an undervalue: at a time in the period of 5 years ending with the day on which the winding up of the company commences;
 - (2) for an unfair preference which is not a transaction at an undervalue and is given to a person who is connected with the company

³ Section 265D of the WUO

⁴ Section 266 of the WUO

⁵ Section 266B of the WUO

(otherwise than by reason only of being its employee): at a time in the period of 2 years ending with the day on which the winding up of the company commences; and

- (3) in any other case of an unfair preference which is not a transaction at an undervalue: at a time in the period of 6 months ending with the day on which the winding up of the company commences.

The above is subject to the conditions as stated in s.266(2) of WUO, i.e. either the company is unable to pay its debts or the company becomes unable to pay its debts. The relevant time is as at the time of transaction. Unless the transaction was made with a connected / associated company or person, the liquidator has to burden prove the conditions.

20. S.178 of WUO defines the circumstances in which a company is deemed to be unable to pay its debts. A transaction is “undervalue” if it was a gift or no valuable consideration was given. For “unfair preference”, it is a transaction putting a creditor in a preferred position entered into by the debtor with a “desire to prefer” that creditor over others.
21. Similar provisions can be found in the case of bankruptcy under the Bankruptcy Ordinance, Cap. 6 (“BO”).⁶
22. In considering the Issue (3), it is necessary to first identify the relationship between the parties, especially that between the Hong Kong Companies and the Third-party Payors.
23. In my view, it is abundantly clear that only the Hong Kong Companies and the Relevant Customers had the contractual relationship. Based on the available information, the Third-party Payors only acted as the agent

⁶ Sections 50 to 51B of the BO

of the Relevant Customers to settle payment due on their behalf.

24. As a result, the money paid was or was deemed to be the money of their principal, i.e. the Relevant Customers, instead of the agent, i.e. Third-party Payors.
25. As there is no contractual relationship between the Hong Kong Companies and the Third-party Payors, the Third-party Payors (including their liquidators, if appointed) certainly cannot sue based on contract. The Third-party Payors (including their liquidators, if appointed) may sue if the money was paid under mistake or as a consequence of some fraud or wrongful act of the payee (Bowstead and Reynolds on Agency (21st Edition), 9-099). However, there is no information or evidence suggesting that those situations occurred in the present case. So, I do not consider that the Third-party Payors (including their liquidators, if appointed) will have any possible claim against the Hong Kong Companies in connection with the Third Party Payments.
26. Furthermore, in light of the Third-party Payors' express confirmation (if any) and (even if there as no express confirmation) their conduct in settling the invoices payable from the Relevant Customers to the Company, the principles of estoppel by representation are applicable (see Halsbury's Laws of Hong Kong, 170.087). The Third-party Payors are prevented from changing their position and alleging the payments were in fact their own money.
27. By the same token, the Third-party Payors did not make the payments, in their own capacity, to the Hong Kong Companies as a gift or at undervalue. There was no issue of preferring the Company over other creditors because the payments were not used for the purpose of paying off any debt. The relevant provisions under the WUO and BO are not applicable.

If those provisions were invoked, the relevant transactions should be the ones between the Third-party Payors and the Relevant Customers but not the ones between the Relevant Customers and the Company.

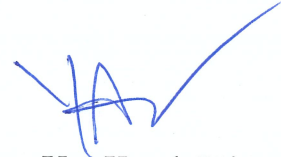
28. The above analysis will even be stronger in the context of Payments from Connected Third-parties. It is self-evident that the payments were made by affiliated companies (as agents of the Group's customers) for their internal management or accounting purposes.
29. So, on Issue (3), I consider that the litigation risk, including possible claims from the Third-party Payors (or their liquidators, if appointed) are remote.

Conclusion

30. Based on the available information and for the reasons set out above, my advice to the instruction set out in paragraph 4 above is as follows:
- (1) The Third-party Payment arrangements are legal as the same is not prohibited by any law in Hong Kong.
 - (2) The risk of money laundering for receipt of money from a third party is remote and I consider it does not pose any risk to the Company's business because the Hong Kong Companies have reasonable grounds to believe that the Third-party Payment Arrangements were genuine and not proceeds of any indictable offence.
 - (3) The risk for the Third-Party Payors (including their liquidators, if appointed) to have claims against the Hong Kong Companies in connection with the Third-party Payment Arrangements are remote and such claims will unlikely be reasonable.

31. I am happy to review and revise my advice above if there is any further information or question on the subject matter.

Dated the 17th day of June 2025.



Yan Kwok Wing

Barrister-at-law