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Memorandum

To: Zhejiang Galaxis Technology Group Co., Ltd. (浙江凱樂士科技集團股份有限公司)

CC: Guotai Junan Capital Limited
CITIC Securities (Hong Kong) Limited
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CLSA Limited
(the "Sponsor-Overall Coordinators")

From: Ashurst Horitsu Jimusho Gaikokuho Kyodo Jigyo
(Ashurst Tokyo)
Alexander Dmitrenko, Office Managing Partner

Date: March 16, 2026

Re: **U.S. Outbound Investment Rules Analysis**

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1. **Introduction**

1.1 We act as the United States ("U.S.") outbound investment rules counsel for **Zhejiang Galaxis Technology Group Co., Ltd.** (浙江凱樂士科技集團股份有限公司) ("**Galaxis**" or the "**Company**", together with its subsidiaries, the "**Group**"), a company incorporated in the People's Republic of China ("**PRC**"), which is applying for the listing of its H shares (the "**Listing**") on the Stock Exchange of Hong Kong Limited (the "**HKEx**").

1.2 The Company's proposed offering of its shares is set out in the Prospectus of the Company relating to the IPO filed with the Registrar of Companies in Hong Kong on [March 13, 2026] (the "**Prospectus**") and any offering circulars of the Company (the "**Offering Circulars**"). This memorandum is delivered to the Company, our client, and, at the request of and with the consent of the Company, shared in copy with the Joint Sponsors.

1.3 This memorandum has been prepared to address:

- (a) whether the Company or any Group entity is a "covered foreign person" as defined in the Provisions Pertaining to U.S. Investments in Certain National Security Technologies and Products in Countries of Concern (the "**OIR**"), and whether each of them is engaged in any "covered activity" as defined in the OIR;
- (b) whether any U.S.-person investment into the Company would be subject to the OIR and trigger a notification requirement or even be prohibited; and
- (c) any potential impact of recent regulatory updates on the Listing.

2. **Executive Summary**

2.1 The Company should not be deemed a "covered foreign person." While the Company is a "person of a country of concern" as a PRC-incorporated entity, the Company does not engage in any "covered activities" which would fall within the scope of the definition of "prohibited" or "notifiable" transactions under the OIR. Investments in the Company by U.S. persons who invest in the Company (including acquiring the Company's non-public shares to facilitate its Listing) would therefore not be subject to the prohibitions or notification requirements under the OIR.

2.2 Even if investments in the Company were deemed notifiable, U.S. investors who acquire publicly traded shares in the Company through the HKEx (including share settlements pursuant to subscription agreements entered into prior to the Listing) are currently excepted from the OIR notification requirements so long as the acquired shares do not afford such U.S. investors rights beyond certain standard minority shareholder rights.

3. **Background**

- 3.1 Established in 2014, Galaxis is a provider of intralogistics solutions, offering integrated logistics robots, compatible software systems, and tailored solutions and deployment capabilities. The Company's intralogistics robots include multi-directional shuttle robots ("**MSRs**") and autonomous mobile robots ("**AMRs**"), each designed for tote and pallet handling, and conveying and sorting robots ("**CSRs**"), designed for goods transportation and sorting.
- 3.2 In powering its intralogistics robots and solutions, the Group engages in the development and application of numerous technologies, including two main AI-related technologies: digital twins, and large models. Specifically, the digital twin platform enables the Group to generate detailed 3D visualizations and conduct simulations of its logistics solutions, helping the Group's clients better understand system concepts, processes, and workflows. The large model technology entails an AI-powered knowledge base to assist with product information access and solution guidance.
4. **Overview of U.S. Outbound Investment Restrictions**
- 4.1 On August 9, 2023, President Biden issued Executive Order 14105, "Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern" (the "**Outbound Order**"). The Outbound Order directs the Secretary of the Treasury to establish a program to prohibit, or require notification of, certain types of outbound investments by U.S. persons into certain entities located in a country of concern involved in specific categories of advanced technologies and products critical for military, intelligence, surveillance, or cyber-enabled capabilities. The Outbound Order identifies three categories of national security technologies and products targeted by the program: semiconductors and microelectronics, quantum information technologies, and artificial intelligence ("**AI**") (together, the "**Initial Key Sectors**").
- 4.2 On October 28, 2024, the Treasury released the OIR implementing the Outbound Order, prohibiting or requiring the notification of certain outbound foreign investments by U.S. persons into "persons of a country of concern." Currently, only the PRC, including Hong Kong and Macao (collectively, "**China**"), has been identified as a country of concern.¹ The OIR took effect on January 2, 2025. It is a live instrument which could be further amended, e.g., in accordance with the COINS Act (defined below).
- 4.3 Specifically, under the OIR, effective January 2, 2025, unless an exception applies, U.S. persons are prohibited from engaging in, or are required to notify the Treasury of, any (i) "covered transaction" involving (ii) a "covered foreign person" (iii) who is engaged in any "covered activity" involving the Initial Key Sectors (as defined below). Whether a "covered transaction" is prohibited or requires notification to the Treasury depends on the nature of the "covered activity." Moreover, a U.S. person

¹ 31 CFR Part 850.

must have possessed the requisite knowledge in order for the investment to be a "covered transaction" under the OIR.

4.4 We explain each of the key definitions below.

U.S. Persons

4.5 In order for the OIR to be engaged, the investment or transaction must have been conducted by a U.S. person, which includes "any United States citizen, lawful permanent resident, entity organized under the laws of the United States or any jurisdiction within the United States, including any foreign branch of any such entity, or any person in the United States."²

Covered Transactions

4.6 The term "covered transaction" includes the following transactions conducted directly or indirectly by a U.S. person:³

- (a) The acquisition of equity and contingent equity interest in a target that the U.S. person knows at the time of the acquisition is a "covered foreign person;"
- (b) The provision of debt financing (i.e., a loan or other debt facility) to a person that the U.S. person knows at the time of the provision is a "covered foreign person," where such debt financing affords the U.S. person an interest in profits, board rights or other financial or governance rights with respect to the "covered foreign person," that are characteristic of an equity investment and not typical of a loan;
- (c) The conversion of a contingent equity interest (acquired on or after January 2, 2025) into an equity interest in a person that the U.S. person knows at the time of the conversion is a "covered foreign person;"
- (d) The acquisition, leasing, or other development of operations, land, property, or other assets in China that the U.S. person knows at the time of such acquisition, leasing, or other development will result in (or is planned to result in) the establishment of a "covered foreign person" or the engagement of a Chinese person in a "covered activity;"
- (e) The entrance into a joint venture, wherever located, that is formed with a Chinese person and that the U.S. person knows at the time of entrance into the joint venture that it will engage, or plans to engage, in a "covered activity;" or
- (f) The acquisition of a limited partner or equivalent interest in a non-U.S. pooled investment fund (e.g., a venture capital fund, private equity fund, fund of funds) that the U.S. person knows at the time of the acquisition will likely invest in a

² 31 CFR 850.229.

³ 31 CFR 850.210.

Chinese person that is in the semiconductor and microelectronics, quantum information technologies, or AI sectors, and such fund undertakes a transaction that would be a "covered transaction" if undertaken by a U.S. person.

- 4.7 Since the OIR took effect on January 2, 2025, transactions that took place prior to the effective date are not subject to the OIR and would not be considered "covered transactions," with an exception for transactions made pursuant to a binding, uncalled capital commitment entered into before the effective date.

Knowledge Standard

- 4.8 As mentioned above, a "covered transaction" generally requires the U.S. person to have the requisite knowledge under the OIR. A U.S. person may be deemed to possess knowledge that a transaction involves a "covered foreign person" engaging in a "covered activity" if it:
- (a) has actual knowledge that the fact or circumstance exists or is substantially certain to occur;
 - (b) has an awareness of a high probability of a fact or circumstance's existence or future occurrence; or
 - (c) has reason to know of a fact or circumstance's occurrence, judged by whether a reasonable and diligent inquiry was undertaken.⁴

- 4.9 The OIR also sets out a list of factors against which due diligence efforts will be scrutinized. These include efforts to obtain information and contractual assurances, which should be obtainable through a reasonable transactional due diligence process with respect to the determination of a transaction's status as a "covered transaction," or a relevant entity's status as a "covered foreign person."⁵ The OIR further stipulates that whether a "reasonable and diligent inquiry" has been undertaken will be based on a consideration of the totality of the relevant facts and circumstances.⁶

Covered Foreign Person

- 4.10 A "covered foreign person" includes: (a) a person of a country of concern that is engaged in a "covered activity;" (b) a person that has a voting or equity interest, board seat, or certain powers with respect to a person of a country of concern engaged in a "covered activity", where more than 50 percent of one of several key financial metrics of the person is attributable to one or more such persons of a country of concern; and (c) a person of a country of concern that participates in a

⁴ 31 CFR 850.216.

⁵ 31 CFR 850.104(c).

⁶ 31 CFR 850.104(d).

joint venture with a U.S. person, where the joint venture engages (or the U.S. person knows that the joint venture plans to engage) in a "covered activity."⁷

4.11 A "person of a country of concern" includes: (a) a non-U.S. citizen or lawful permanent resident who is a citizen or permanent resident of China; (b) an entity with its principal place of business, or that is incorporated or organized under, the laws of China; (c) the government of China and its instrumentalities, agents, and controlled entities, including entities (whether located inside or outside a country of concern) in which the government holds at least 50 percent interest or otherwise controls the management; or (d) entities (whether located inside or outside China) in which the aforementioned entities hold at least 50 percent of the outstanding voting interest, board voting power, or equity interest, directly or indirectly, individually or in the aggregate.⁸

4.12 In other words, a "covered foreign person" covers:

- (a) any Group entity incorporated in China engaged in "covered activities";
- (b) any entity (whether located in China or overseas) that is 50 percent or more owned or controlled, directly or indirectly, by any Chinese national or entity engaged in "covered activities";
- (c) any entity (whether located in China or overseas) that has a voting or equity interest, board seat, or certain powers with respect to one or more Chinese entities engaged in "covered activities," where more than 50 percent of its revenue, net income, capital expenditure or operating expenses is attributable to such Chinese entities engaged in "covered activities"; and
- (d) any Chinese entity that participates in a joint venture (wherever located) engaged in "covered activities."

Covered Activity

4.13 The term "covered activity" refers to those activities described in the definition of "notifiable transaction" or "prohibited transaction."⁹ The OIR provides a list of activities that fall under either "prohibited transaction" or "notifiable transaction" under each of the Initial Key Sectors below.

- (a) Semiconductors and microelectronics:
 - (i) Prohibited transactions:

⁷ 31 CFR 850.209.

⁸ 31 CFR 850.221.

⁹ 31 CFR 850.208.

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- (A) the development or production of any electronic design automation software for the design of integrated circuits or advanced packaging.
- (B) the development or production of any:
 - (I) front-end semiconductor fabrication equipment designed for performing the volume fabrication of integrated circuits, including equipment used in the production stages from a blank wafer or substrate to a completed wafer or substrate (i.e., the integrated circuits are processed but they are still on the wafer or substrate).
 - (II) equipment for performing volume advanced packaging.
 - (III) commodity, material, software, or technology designed exclusively for use in or with extreme ultraviolet lithography fabrication equipment.
- (C) the design of any integrated circuit that meets or exceeds the performance parameters in Export Control Classification Number 3A090.a in Supplement No. 1 to 15 CFR part 774, or integrated circuits designed for operation at or below 4.5 degrees Kelvin.
- (D) the fabrication of any:
 - (I) logic integrated circuits using a non-planar transistor architecture or with a production technology node of 16/14 nanometers or less, including fully depleted silicon-on-insulator (FDSOI) integrated circuits.
 - (II) NOT-AND (NAND) memory integrated circuits with 128 layers or more.
 - (III) dynamic random-access memory (DRAM) integrated circuits using a technology node of 18 nanometer half-pitch or less.
 - (IV) integrated circuits manufactured from a gallium-based compound semiconductor.
 - (V) integrated circuits using graphene transistors or carbon nanotubes.
 - (VI) integrated circuits designed for operation at or below 4.5 degrees Kelvin.

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- (E) the packaging of any integrated circuit using advanced packaging techniques.
 - (F) the development, installation, sale or production of any supercomputer enabled by advanced integrated circuits that can provide a theoretical compute capacity of 100 or more double-precision (64-bit) petaflops or 200 or more single-precision (32-bit) petaflops of processing power within a 41,600 cubic foot or smaller envelope.
 - (ii) Notifiable transactions: the design, fabrication, or packaging of any integrated circuits not otherwise covered by the prohibited transactions above.
- (b) Quantum information technologies:
- (i) Prohibited transactions: the development of quantum computers or the production of any critical component required to produce a quantum computer; the development or production of certain quantum sensing platforms; and the development or production of certain quantum networks or quantum communication systems.
 - (ii) Notifiable transactions: none.
- (c) Certain AI systems:
- (i) Prohibited transactions: the development of any AI system:
 - (A) designed to be exclusively used for, or which the relevant covered foreign person intends to be used for, any:
 - (I) military end use (e.g., for weapons targeting, target identification, combat simulation, military vehicle or weapon control, military decision-making, weapons design (including chemical, biological, radiological, or nuclear weapons), or combat system logistics and maintenance); or
 - (II) government intelligence or mass-surveillance end use (e.g., through incorporation of features such as mining text, audio, or video; image recognition; location tracking; or surreptitious listening devices); or
 - (B) trained using a quantity of computing power greater than:
 - (I) 10^{25} computational operations (e.g., integer or floating-point operations); or

- (II) 10^{24} computational operations using primarily biological sequence data.
- (ii) Notifiable transactions: the development of any AI system not otherwise covered by the "prohibited transaction" definition, where such AI system is:
 - (A) designed to be used for any military end use or government intelligence or mass-surveillance end use;
 - (B) intended by the covered foreign person or joint venture to be used for any of the following:
 - (I) cybersecurity applications;
 - (II) digital forensics tools;
 - (III) penetration testing tools; or
 - (IV) the control of robotic systems; or
 - (C) trained using a quantity of computing power greater than 10^{23} computational operations.

4.14 With respect to an "AI system", the OIR defines it broadly to mean:

- (a) a machine-based system that can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments – i.e., a system that (i) uses data inputs to perceive real and virtual environments; (ii) abstracts such perceptions into models through automated or algorithmic statistical analysis; and (iii) uses model inference to make a classification, prediction, recommendation, or decision; and
- (b) any data system, software, hardware, application, tool, or utility that operates in whole or in part using a system described above.¹⁰

4.15 The Treasury has further provided the following guidance on certain defined terms relevant to AI systems in the preamble to the OIR and in the Frequently Asked Questions ("**FAQs**") on its website:

- (a) The OIR defines the operative verb "develop" to mean "to engage in any stages prior to serial production, such as design or substantive modification, design research, design analyses, design concepts, assembly and testing of prototypes, pilot production schemes, design data, process of transforming design data into a product, configuration design, integration design, and layouts." The Treasury considers substantive modifications to a third-party

¹⁰ 31 CFR 850.202.

AI model, including advancing or repurposing its performance, function or capability or removing its security features or safeguards to constitute the development of an AI model.¹¹ For the purposes of assessing whether an AI system has any of the end-use applications set forth paragraph 4.13(c), different versions of an AI system, including adaptations, derivatives, subsequent generations, or successor systems, should be assessed as distinct AI systems since the designed end-use or capabilities of a successor system could vary from a prior version.¹²

- (b) The OIR does not provide a definition for "control of robotic systems." The Treasury has acknowledged that the notification requirement for certain AI systems involving the "control of robotic systems" may implicate certain consumer or civilian applications, due to the dual-use nature of controlling robotic systems. However, the Treasury has refused to provide a sectoral carveout (e.g., for medical or automotive applications) because, "given the potential and significant capability enhancement afforded by AI systems in the area of controlling robotic systems," the Treasury assesses that a sectoral carveout in the notification requirement would reduce the U.S. Government's visibility into transactions involving dual-use technologies and products relevant to national security.¹³ In other words, the Treasury assessed that limiting notifiable transactions involving AI systems to systems designed to be exclusively used for certain non-military applications would be too narrow to capture dual-use technologies of potential concern.¹⁴
- (c) In considering the design intent of an AI system, the Treasury has instructed that if the U.S. person knows that the AI system is trained using a quantity of computing power greater than 10^{23} , that would "obviate the need for an investor to assess design intent of AI systems."¹⁵

4.16 The OIR also prohibits a "covered transaction" in which the relevant "covered foreign person" engages in a "covered activity" and is subject to one or more sanctions regimes maintained by the U.S. government (i.e., the Bureau of Industry and Security ("**BIS**")'s Entity List; BIS's Military End User List; BIS's definition of "Military Intelligence End User;" the Treasury's list of Specially Designated Nationals and Blocked Persons; the Treasury's list of Non-SDN Chinese Military-Industrial Complex Companies; and/or is designated as a foreign terrorist organization by the U.S. Secretary of State).¹⁶

¹¹ 31 CFR 850.211. See also FAQ II-1 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

¹² FAQ II-1 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

¹³ 89 FR 90398.

¹⁴ *Id.*

¹⁵ 89 FR 90398.

¹⁶ 31 CFR 850.224(m).

Indirect Covered Transactions

- 4.17 Covered transactions include both direct and indirect transactions. The OIR does not explicitly define "indirect" transactions, including whether activities engaged in by subsidiaries or affiliates of an investment target that do not meet the 50 percent thresholds discussed in 4.12(c) above can still subject the investment target itself to the OIR due to an "indirect" covered transaction. Treasury commented in the preamble to the OIR that it declined to categorically exclude from the coverage of "covered transaction" any and all indirect transactions through persons falling outside of the 50 percent thresholds. While the definition of "indirect transaction" is unclear in the OIR, Treasury has recently published additional Frequently Asked Questions providing a few examples of "indirect transactions."¹⁷ These examples indicate that, absent intent or knowledge that the U.S. investment be used for a covered foreign person subsidiary, U.S. investment into the parent company that is not a covered foreign person itself and does not attribute more than 50 percent of the key financial metrics to such subsidiary is not an indirect covered transaction.

Excepted Transactions

- 4.18 The OIR provides ten categories of exceptions where the prohibitions and notification requirements laid down by the OIR do not apply. Most relevant to the Listing, the OIR excepts from its coverage investments in publicly traded securities, denominated in any currency, that trade on a securities exchange or over-the-counter in any jurisdiction.¹⁸ Notably, this exception does not apply to investments that afford the U.S. person rights beyond "standard minority shareholder

¹⁷ See FAQ III-4 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>: "[A]bsent additional facts, a U.S. person's investment into an operating company or other entity, where the U.S. person has no knowledge at the time of the transaction that the investment is intended for a covered foreign person, would not be an indirect covered transaction, subject to sections 850.210(a)(6), 850.303, and 850.604. This is the case even if the operating company or other entity has an existing relationship with a covered foreign person, e.g., has a subsidiary that is a covered foreign person. (However, if the operating company or other entity's relationship to a covered foreign person meets a threshold in section 850.209(a)(2), then the operating company or other entity would itself be a covered foreign person, making the U.S. person's investment a covered transaction.)"

Example 4.2: A U.S. person acquires an equity interest in Company A, an operating company that is not a person of a country of concern. None of Company A's revenue, operating income, capital expenditure, or operating expenses are attributable to a covered foreign person or persons at or above 50 percent for the most recent year for which an audited financial statement is available, and therefore, Company A is not a covered foreign person under section 850.209(a)(2). Among Company A's subsidiaries are persons of a country of concern engaged in covered activities. The U.S. person conducts a reasonable and diligent inquiry into its investment in Company A and knows about Company A's ownership of and financial exposure to covered foreign persons. However, the U.S. person has no reason to know that its investment is intended for a covered foreign person. Absent additional facts, this transaction is not an indirect covered transaction because the U.S. person did not know at the time of the transaction that Company A intended to use the U.S. person's investment for covered foreign persons.

Example 4.3: Same facts as Example 4.2 above, except at the time of the transaction, Company A's prospectus stated that it was raising money to, among other things, fund its subsidiaries that are covered foreign persons. This transaction is an indirect covered transaction because the U.S. person knew at the time of the transaction that its investment would be used to fund a covered foreign person via an intermediary and the transaction otherwise meets the elements of a covered transaction."

¹⁸ 31 CFR 850.501(a)(1)(i).

protections" with respect to the "covered foreign person."¹⁹ The Treasury recently clarified that proposal rights generally available to similarly situated shareholders (such as shareholders meeting a certain low ownership threshold set in PRC statute) would qualify as standard minority shareholder protections.²⁰ Specifically, a shareholder's right to nominate (i.e., propose for election) an entity's directors would be considered a standard minority shareholder protection for purposes of the OIR if that right is generally available to similarly situated shareholders of that entity solely by virtue of their minority shareholding. In contrast, the right to *appoint* a director, regardless of whether such a right is accorded to similarly situated shareholders, does not constitute a minority shareholder protection.²¹

4.19 In the preamble to the OIR, the Treasury "emphasizes" that a U.S. person's acquisition of equity that is not yet publicly traded for the purposes of facilitating an IPO, including as part of an underwriting arrangement, would not fall under this exception and could be considered a "covered transaction." However, the exception *would* apply to an equity interest in a covered foreign person acquired / settled *subsequent to* the occurrence of a public listing.²² The timing of settlement is therefore critical because any private settlement taking place prior to the official listing (i.e., 9:00 a.m. on the listing date) would not be excepted from the restrictions of the OIR.

4.20 The provision of a service ancillary to an IPO (e.g., underwriting services) that does not include the acquisition of an equity interest (or other interests set forth in paragraph 4.6) is not a covered transaction.²³

Obligations to Treasury

4.21 In relation to a "prohibited transaction":

(a) The OIR requires a U.S. person to take "all reasonable steps" to prohibit and prevent any transaction by its controlled foreign entity that would be a "prohibited transaction" if engaged in by a U.S. person.²⁴

¹⁹ 31 CFR 850.501(a)(2). The "standard minority shareholder protections" include the power to prevent the sale or pledge of all assets of an entity or a voluntary filing for bankruptcy or liquidation; the power to prevent an entity from guaranteeing the obligations of majority investors or their affiliates; the right to purchase an additional interest in an entity to prevent the dilution of an investor's pro rata interest in that entity in the event that the entity issues additional instruments conveying interests in the entity; the power to prevent the change of existing legal rights or preferences of the particular class of stock held by minority investors, as provided in the relevant corporate documents governing such stock; and the power to prevent the amendment of the Articles of Incorporation, constituent agreement, or other organizational documents of an entity with respect to the above matters.

²⁰ FAQ X-5 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

²¹ *Id.*

²² FAQ X-4 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

²³ *Id.* See also Treasury's Example 1.3 in FAQ III-1 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

²⁴ 31 CFR 850.302.

- (b) The OIR prohibits a U.S. person from "knowingly directing" a transaction, including by non-U.S. person entities, that the U.S. person knows would be a prohibited transaction if engaged in by a U.S. person.
 - (i) A U.S. person "knowingly directs" a transaction when the U.S. person has authority, individually or as part of a group, to make or substantially participate in decisions on behalf of a non-U.S. person, and exercises that authority to direct, order, decide upon, or approve a transaction. Such authority exists when a U.S. person is an officer, director, or otherwise possesses executive responsibilities at a non-U.S. person.²⁵
 - (ii) U.S. persons who recuse themselves from (a) participating in formal approval and decision-making processes related to the transaction, including making a recommendation; (b) reviewing, editing, commenting on, approving, and signing relevant transaction documents; and (c) engaging in negotiations with the investment target (or, as applicable, the relevant transaction counterparty, such as a joint venture partner) will not be considered to have exercised their authority to direct, order, decide upon, or approve a transaction.²⁶
 - (iii) The OIR does not restrict a U.S. person from working at any entity that receives investment that is subject to the OIR, nor does it restrict a U.S. person from working at an entity making such an investment.²⁷

4.22 In the case of a "notifiable transaction," a U.S. person with knowledge of the transaction has an obligation to report it to the Treasury within 30 calendar days after the closing of the transaction.²⁸ The OIR also requires a U.S. person to notify the Treasury: (a) of a transaction by its controlled foreign entity that would be a "notifiable transaction" if engaged in by a U.S. person;²⁹ and (b) in a situation where the U.S. person obtained certain post-transaction knowledge regarding a transaction that would have been a "prohibited transaction" or a "notifiable transaction" if such information had been possessed by the relevant U.S. person at the time of the transaction.³⁰

Controlled Foreign Entity

²⁵ 31 CFR 850.303(a). See also FAQ I-8 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

²⁶ 31 CFR 850.303(b).

²⁷ FAQ I-8 at <https://home.treasury.gov/policy-issues/international/outbound-investment-program/frequently-asked-questions>.

²⁸ See <https://home.treasury.gov/policy-issues/international/outbound-investment-program/outbound-notification-system-submission-instructions>.

²⁹ 31 CFR 850.402.

³⁰ 31 CFR 850.403.

- 4.23 The OIR also imposes requirements on a U.S. person with respect to any "controlled foreign entity" to which it is a "parent" (i.e., directly or indirectly controlling a majority of the voting interest in the entity's shares or board, acting as the general partner or managing member, or acting as an investment adviser to a pooled investment fund).
- 4.24 As mentioned above, the U.S. person is required to (a) take "all reasonable steps to prohibit and prevent" its controlled foreign entity from conducting a "prohibited transaction;"³¹ and (b) notify the Treasury of any notifiable transactions undertaken by its controlled foreign entity.³² The Treasury has provided a non-exhaustive list of "all reasonable steps," which include the affirmative exercise of governance rights by the U.S. person and the imposition of compliance policies and internal controls on its controlled foreign entity.³³

Penalties for Violations

- 4.25 The Treasury has published examples of conduct that may constitute a violation.³⁴ In the case of a violation, the OIR authorizes civil fines of up to USD 377,700 (as adjusted for inflation), or twice the value of the relevant transaction, whichever is greater. Willful violations may result in criminal sanctions of up to USD 1 million and/or up to 20 years' imprisonment.³⁵ The OIR also authorizes the Treasury to force the divestment of any "prohibited transaction."

5. **Potential Changes to the OIR**

The AFIP

- 5.1 On February 21, 2025, the current administration issued a memorandum titled the "America First Investment Policy," outlining its approach to foreign investment controls ("**AFIP**"). The memorandum proposes a number of changes which envisage a broadening of the restrictions on outbound investments, in a number of countries the U.S. considers to threaten its national and economic security, including China. While the U.S. government has not yet enacted regulations enforcing these changes, the AFIP reflects the general stance to curb economic investments in China and Chinese companies.

³¹ 31 CFR 850.302.

³² 31 CFR 850.402.

³³ 31 CFR 850.302(b).

³⁴ See <https://home.treasury.gov/system/files/206/Outbound-Program-Enforcement-Overview-and-Guidance.pdf>.

³⁵ 31 CFR 850.701.

5.2 Specifically, the AFIP states that the Outbound Order is under review to examine "whether it includes sufficient controls to address national security threats."³⁶ It proposes the following two major expansions of the OIR:

- (a) An expansion of the sectors subject to U.S. outbound investment restrictions targeting China to include biotechnology, hypersonics, aerospace, advanced manufacturing, directed energy ("**New Key Sectors**") and "other areas implicated by China's national military-civil fusion strategy;" and
- (b) An expansion of the types of U.S. investments in China that would be subject to the OIR (e.g., private equity, venture capital, greenfield investments, and corporate expansions and investments in publicly traded securities, from sources including pension funds, university endowments and other limited-partner investors).

5.3 If the proposed expansions in the AFIP are implemented, they would eliminate the exception related to publicly traded securities discussed in paragraph 4.18 above, among other exceptions.

The COINS Act

5.4 On December 18, 2025, the U.S. Congress enacted the Comprehensive Outbound Investment National Security Act of 2025 ("**COINS Act**") as part of the FY 2026 National Defense Authorization Act, which codifies and expands the OIR and provides independent statutory authority for the program for at least seven years. The Treasury has 450 days to amend the OIR to conform with the provisions set forth therein, and the existing OIR regulations remain in effect until then.

5.5 The COINS Act contains the following expansions and process changes:

- (a) The COINS Act expands the OIR's coverage to include high-performance computing and supercomputing, and hypersonic systems, while authorizing the Treasury via rulemaking to add other technologies that enable the military, surveillance, or cyber-enabled capabilities of a country of concern.
- (b) The COINS Act expands the OIR's geographic coverage of "countries of concern" from China to also include Cuba, Iran, North Korea, Russia, and Venezuela under the Maduro regime.
- (c) The COINS Act directs the Treasury to establish a confidential, non-binding feedback process (and anonymized public guidance) for parties seeking clarity on whether a transaction is prohibited or notifiable, and authorizes a public, non-exhaustive database of covered foreign persons engaged in prohibited or notifiable technology.

³⁶ See the America First Investment Policy; available at <https://www.whitehouse.gov/presidential-actions/2025/02/america-first-investment-policy/>.

- (d) Critically, the COINS Act directs the Treasury to expand and clarify the scope of "excepted transactions," including preserving the publicly traded securities exception, and adding a new exception for certain secondary transactions, including underwriting services that include a temporary acquisition of an equity interest.

6. **Analysis**

The Company should not be deemed a "covered foreign person"

- 6.1 As a company incorporated in the PRC, the Company is a "person of a country of concern." Any Group entity incorporated in or which has its principal place of business in China is also a "person of a country of concern."
- 6.2 That said, the Company has confirmed that it does not engage in any "covered activity" involving the Initial Key Sectors discussed above. In particular with respect to the AI sector, the Company has confirmed and certified to us that the Group does not develop "AI systems" as the term is defined in the OIR and explained in the Treasury's comments to the OIR.
- 6.3 As discussed in 4.14 above, for a system to constitute an "AI system" under the OIR, it must be capable of performing all three of the following: (i) using data inputs to perceive real and virtual environments; (ii) abstracting such perceptions into models through automated or algorithmic statistical analysis; and (iii) using model inference to make a classification, prediction, recommendation, or decision. Moreover, for the development of such "AI system" to constitute a "covered activity," the AI system must be intended by its developer to be used for the control of robotic systems (among others). While we are not technical experts, according to the Company's explanation, although the Group has developed certain AI-related technologies, including the digital twin platform and large model knowledge base, these AI-related technologies do not satisfy the parameters of "covered activities" under the OIR. In particular,
 - (a) The digital twin platform, which is under development, is "primarily designed for graphical display, focusing on visualizing physical entities such as equipment and spatial layouts in logistics scenarios in the form of digital models," according to the Company. Integrating mathematical modeling, 3D modeling, computer simulation, and virtual-physical convergence technologies, the digital twin platform enables the Company to generate detailed 3D visualizations and conduct simulations of its logistics solutions. Critically, the Company has explained that the platform "does not have the ability to make inferences based on models or make decisions to affect actual logistics operations." As such, the Company's digital twin platform does not meet the definition of "AI system" under the OIR. In any event, the Company has confirmed that the platform is "only used to assist staff in

intuitively understanding the status of various logistics scenarios and does not involve the function of controlling robotic systems."

- (b) The large model knowledge base essentially operates an advanced knowledge management and information retrieval system. Its function is limited to knowledge Q&A in the Company's AI application scenarios. That is, based on the established logistics-field knowledge base, it provides answers to business-related questions for Company employees or partners (such as questions about equipment operation guidelines, responses to logistics process doubts, etc.). In other words, its functionality is akin to an enhanced enterprise search and recommendation engine, similar to the complex database systems used by many businesses. Based on such understanding as well as the Company's confirmation, the large model knowledge base is not an "AI system" that can perceive environments, abstract such perceptions into models and use model inference to make predictions, recommendations or decisions to interfere with the actual operation of robots.

6.4 Other than the digital twin platform and large model knowledge base, the Company has confirmed that it does not engage in the development of other AI-related systems or technologies.

6.5 The Company has further confirmed that it does not engage in any other business activity that may subject it to further restrictions under the OIR. In particular, the Company has confirmed that:

- (a) save as discussed in paragraphs 6.16.5 **Error! Reference source not found.** above, no Group entity otherwise engages in any development, production, fabrication or packaging of technologies or products involving the Initial Key Sectors;
- (b) no Group entity has a voting or equity interest, board seat, or certain powers with respect to any "covered foreign person," where more than 50 percent of its annual revenue, net income, capital expenditure or operating expenses (individually for one "covered foreign person" or aggregated for all) is attributable to one or more such "covered foreign persons"; and
- (c) no Group entity participates in any joint venture that engages in any "covered activity."

6.6 Accordingly, as of the date of this memorandum, neither the Company nor any of its Group entities engages in any "covered activity," and neither the Company nor any Group entity is a "covered foreign person" for purposes of the OIR. Any U.S. investment in the Group, including acquiring the Company's non-public shares to facilitate its listing application, should not be deemed a "covered transaction" that is subject to the prohibitions or notification requirements of the OIR.

- 6.7 Even if the Company were deemed a "covered foreign person," which it is not, once the Company becomes listed on the HKEx, acquisition of its HKEx publicly traded shares by U.S. persons would be excepted from restrictions under the OIR so long as such acquisition does not afford a U.S. person rights beyond "standard minority shareholder protections" with respect to the Company. We understand that, upon Listing, the Company's H shares would afford its 1 percent (or above) shareholders certain "proposal rights." According to Treasury's comments discussed in paragraph 4.18 above, such "proposal rights," including the right to nominate directors, would likely be considered standard minority shareholder rights if other minority shareholders of the Company share the same right and therefore not impact the application of the exception.

The AFIP's and the COINS Act's potential impact on the Group

- 6.8 As of the date of this memorandum, the AFIP remains a policy statement whereas the OIR's governing legal framework has been codified by the COINS Act, which retains the current OIR regulations in force pending new rulemaking and introduces statutory expansions and process improvements. In other words, the OIR remains in effect until amended or superseded by new regulations. We therefore address three hypothetical risks to the Group in light of both the AFIP's policy direction and the further rulemaking contemplated under the COINS Act.

(a) Publicly traded securities

While the AFIP proposed to eliminate the OIR's exception for "publicly traded securities," The COINS Act maintains an exception for publicly traded securities and indicates that the Treasury may further clarify this exception through rulemaking. The COINS Act also directs Treasury to implement a confidential feedback process to assess whether a contemplated investment would be prohibited or notifiable. Until the Treasury issues new regulations, the existing publicly traded securities exception remains in place.

(b) OIR sectoral coverage

(i) The AFIP identified "advanced manufacturing" as a sector of concern without defining the term. In the context of U.S. inbound investment, the Treasury has defined "advanced manufacturing facility" to mean "a facility for which the primary purpose is the manufacturing of semiconductors or semiconductor manufacturing equipment." Our assessment is that the Group's business activities should not place the Group in the "advanced manufacturing" sector, subject to the specific definition of the "advanced manufacturing" sector to be provided by the U.S. government.

(ii) Under the COINS Act, sectoral coverage will expand to include high-performance computing and supercomputing and hypersonic systems, with the Treasury granted express rulemaking authority to

define technical parameters of both prohibited and notifiable technologies in these sectors. The COINS Act has expressly identified "advanced semiconductor technology and microelectronics" as a prohibited technology. We are unable to conduct any meaningful assessment of the expanded sectoral coverage's application to the Group until the Treasury publishes the technology-specific parameters in the updated OIR regulations, but it seems unlikely that the Company could face more investment restrictions once the OIR is updated.

- (c) "Military-civil fusion" / national security linkages
- (i) Another potential exposure is the AFIP's open-ended phrase of "other areas implicated by China's national military-civil fusion strategy." The AFIP does not offer a definition of this term. However, according to previous guidance issued by the U.S. Department of State, China's military-civil fusion strategy involves "systematically reorganizing the Chinese science and technology enterprise to ensure that new innovations simultaneously advance economic and military development."³⁷
 - (ii) Consistent with this national security focus, the COINS Act authorizes (but does not require) the U.S. President to use the International Emergency Economic Powers Act (50 U.S.C. § 1701 et seq.) ("**IEEPA**") to impose targeted sanctions in certain "covered foreign persons" connected to China that are knowingly engaged in "significant operations in the defense and related material sector or the surveillance technology sector" of the Chinese economy. Violations of such targeted sanctions would carry IEEPA civil and criminal penalties. It is therefore expected that, subject to future developments in U.S. foreign policy objectives, U.S.-China relations and other considerations, the U.S. may impose blocking sanctions on participants in the defense and related material sector or the surveillance technology sector of the Chinese economy.
 - (iii) While we have not independently verified the Group's customer base, based on the Company's confirmation, it may have had a few end customers with military affiliation. That said, the Company has confirmed that it only supplied the Group's regular products (i.e., shuttle carts) to such customers through private distributors, and the Company does not believe the products supplied are dual-use in nature. Moreover, the Group has ceased transacting with such end customers as of the date of this memorandum.

³⁷ <https://www.state.gov/wp-content/uploads/2020/05/What-is-MCF-One-Page.pdf>

- (iv) On the basis of the foregoing, our assessment is that the Group's business activities are not in alignment with the "military-civil fusion" strategy, subject to any further guidance to be provided by the U.S. government.

7. **Assumptions, Qualifications, and Important Disclaimers**

- 7.1 This memorandum is privileged and confidential. This privilege belongs to the Company, as our client, and can only be waived by the Company. This memorandum is delivered to the Company as well as parties that the Company requests and consents to share our advice with, including, specifically, the Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters. The receipt of this memorandum by the Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters does not create an attorney-client relationship (and the ensuing privilege protections) between Ashurst and the Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters, and Ashurst owes no duty of care or any contractual or fiduciary obligations to the Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters in respect of this advice. We hereby give our consent for this memorandum to be disclosed to, but not relied upon by, the Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters. Subject to applicable laws, given the common interest between the Company and Joint Sponsors, the Sponsor-Overall Coordinators and the Underwriters, we do not believe that sharing of our memorandum with such third parties should undermine the attorney-client privilege established between us and the Company.
- 7.2 We have relied on the facts, materials and information provided by the Company in response to our questions focusing on areas related to the scope of this memorandum. In addition, where necessary, we conducted targeted due diligence focusing on key potential exposures.
- 7.3 While we have no reason to doubt the facts, materials or information provided by the Company, our analysis and conclusions might be affected if any of the underlying facts, materials or information provided by the Company are found to be incomplete or incorrect. Should any of these facts prove inaccurate or incomplete, our analysis and conclusions might be materially impacted.
- 7.4 Our advice in this memorandum is based on the U.S. laws and regulations that exist as of the date of this memorandum, which may be subject to change. Our advice may change if the underlying facts, laws, and regulations change.
- 7.5 There have been no public enforcement activities, and the Treasury is expected to modify the OIR based on the COINS Act. Our advice is therefore subject to any future enforcement actions and/or legislative amendments, including but not limited to the following considerations:
 - (a) There is no indication of if or how soon the Treasury will implement the changes to the OIR based on the COINS Act. In this interim period,

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uncertainties and ambiguities persist regarding interpretation and enforcement, including how new statutory authorities will be operationalized. We can be certain, however, that if it is implemented, it will broaden the scope of the OIR.

- (b) The Treasury has issued only limited guidance to clarify the scope of the OIR and we cannot rule out the possibility that a different (likely broader) view of the regulator will prevail, which may prohibit an equity investment in the Company by a U.S. person.
- (c) There has been no public enforcement action taken under the OIR and it remains unclear how it will be enforced (and whether it will be an enforcement priority).

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We hope you find the above analysis helpful. We remain at your disposal should you have any questions or concerns.



Ashurst Horitsu Jimusho Gaikokuho Kyodo Jigyo