



MEMORANDUM

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Privileged and Confidential Attorney-Client Communication

To Pony AI Inc.
FROM Hogan Lovells International LLP

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By Electronic Mail
Privileged and Confidential

SUBJECT Memorandum of Advice - Analysis of Certain Implications of the U.S. Department of the Treasury's Outbound Investment Security Program for the Proposed Hong Kong Exchange Listing of Pony AI Inc.

I. EXECUTIVE SUMMARY

Pony AI Inc. (the “**Company**” or “**you**” and, together with its “**subsidiaries**,”¹ the “**Group**”) has asked Hogan Lovells International LLP (“**HLI**” or “**we**” or “**us**”) to assist it in assessing the applicability of the Outbound Investment Security Program (“**OISP**”) regulations, issued by the U.S. Department of the Treasury (“**Treasury**”) on 28 October 2024 and codified in the United States Code of Federal Regulations at 31 C.F.R. part 850 (as in effect on the date hereof, the “**OISP regulations**”) to the proposed initial public offering (“**IPO**”) and listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Transaction**”). Specifically, the Company has asked us to assess whether the Group should be considered a “covered foreign person” under the OISP regulations. Terms in quotation marks that are not defined herein are defined within the applicable regulations or executive orders addressed in this memorandum.

As summarized in this memorandum, the analysis set forth in this memorandum with respect to the OISP regulations hinges, in part, on whether the Group is engaged in certain activities. In our examination of the impact on, or application to, the Group of the OISP regulations, we have relied on and assumed the accuracy and completeness of the information set forth in Section II of this

¹ For purposes of this memorandum, a “subsidiary” of the Company is any entity (1) in which the Company: (a) holds, directly or indirectly, more than 50 percent of: (i) the outstanding voting interest of the entity; or (ii) the voting power of the board of the entity; or (b) is the general partner, managing member, or equivalent; or (2) which is a pooled investment fund for which the Company acts the “investment adviser” as defined in the U.S. Investment Advisers Act of 1940. See 31 C.F.R. §§ 850.219 and 850.227.

memorandum, which was provided to us by the Company during the period February 17, 2025 to August 19, 2025 in (a) responses by Company personnel to a set of OISP-related questions circulated to the Company and (b) a written certification from a senior executive officer of the Company that permitted our reliance thereon for purposes of this memorandum. References in this memorandum to information “provided” or “confirmed” by the Company, or to the Company’s “confirmation”, signify information provided and certified to HLI by the Company in the manner described in the preceding sentence, all of which information we have assumed to be accurate and complete without independent investigation, verification or inquiry by us; and all references to “provided”, “confirmed” and “confirmation” are to be understood accordingly. Further, for purposes of this memorandum, we have not independently verified, nor do we take any responsibility for, nor are we addressing in any way, any statements of fact; any statements concerning law other than the OISP regulations; any legal conclusions; or any statements of belief attributable to the Company. This memorandum is provided in the context of the foregoing.

Based on the information provided by the Company as set forth in Section II below, as of the date hereof, the Company and the Group likely would be considered to be “persons of a country of concern” for purposes of the OISP regulations because the Company has confirmed that (i) the Company’s headquarters is in China, which is a “country of concern” designated in Executive Order 14105, “Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern,” which President Joseph R. Biden issued on 9 August 2023 (“**EO 14105**”) and (ii) the Company directly or indirectly holds at least 50 percent of the equity interests of the other members of the Group. Under the OISP regulations, a “person of a country of concern” who engages in “covered activities” is a “covered foreign person.” The Group may be engaged in “covered activities” because the Company has confirmed that the Group is developing AI models, including an AI model that appears to be intended to be used for “the control of robotics systems”, as described in the “notifiable transaction” definition in Section 850.217(d)(2)(iv) of the OISP regulations. However, although the “covered activities” in which the Company has confirmed that the Group may be engaged may be “covered activities” within the “notifiable transaction” definition of the OISP regulations, based on information provided by the Company, such activities do not appear to be “covered activities” within the “prohibited transaction” definition in Section 850.224 of the OISP regulations because (i) these activities as described in further detail in Section II below do not appear to fall within the scope of the activities specifically described in Section 850.224 of the OISP regulations and (ii) the Company has confirmed that the Group is not identified on certain U.S. restricted parties lists and does not satisfy certain definitions set forth in Section 850.224(m)(1)-(6) of the OISP regulations. Accordingly, although the Group’s activities appear to include “notifiable transaction” “covered activities”, such activities should not be treated as “prohibited transaction” “covered activities” under the OISP regulations.

II. Background Regarding the Group and its Current Products

The Company has provided us with the following information, which we have assumed, without independent investigation, inquiry or verification, to be accurate and complete in all respects for purposes of this memorandum:

- (a) The Company is incorporated under the laws of the Cayman Islands. The Company’s headquarters is located in Guangzhou, China.
- (b) The Group is developing certain AI models that are developed for and employed in automated driving systems in order to control such systems for vehicles on the open

road. These automated driving systems could be considered robotic systems. The Group is not developing AI models for any other purpose.

- (c) By virtue of the Group's development of its AI models that are employed in automated driving systems, the Group is engaged in the development of systems that:
 - (1) use data inputs to perceive real and virtual environments;
 - (2) abstract such perceptions into models through automated or algorithmic statistical analysis; and
 - (3) use model inference to make a classification, prediction, recommendation, or decision.
- (d) Other than with respect to the Company's subsidiaries, the Company does not, directly or indirectly, hold a board seat on, a voting or equity interest in, or any contractual power to direct or cause the direction of the management or policies of any "person of a country of concern" in which the Company, derives or incurs more than 50 percent of any of its Financial Metrics (as defined below in Section III).
- (e) No Company subsidiary derives or incurs more than 50 percent of its Financial Metrics from any person, individually, or as aggregated across all such persons, other than persons that constitute subsidiaries of the Company.
- (f) The Group's AI models are trained using a quantity of computing power below 10^{23} computational operations (e.g., integer or floating point operations per second ("FLOPS")).
- (g) The Group does not:
 - (1) develop any "AI system"² designed to be used for, or which the Group intends to be used for, any:
 - a. 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
 - b. 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).
 - (2) develop any "AI system" that is intended to be used for cybersecurity applications, digital forensics tools, or penetration testing tools;

² 31 C.F.R. § 850.202 defines "AI system" 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: (1) Uses data inputs to perceive real and virtual environments; (2) Abstracts such perceptions into models through automated or algorithmic statistical analysis; and (3) 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 in the preceding sentence (a)."

- (3) develop any “AI system” that is trained using a quantity of computing power greater than 10^{24} computational operations (e.g., integer or FLOPs) using primarily biological sequence data;
 - (4) develop any “AI system” that is trained using a quantity of computing power greater than 10^{25} computational operations (e.g., integer or FLOPs), including by combining one or more of the AI models that it develops;
 - (5) develop any data system, software, hardware, application, tool, or utility that operates in whole or in part using, or that substantially modifies, a third-party “AI system”;
 - (6) engage in developing, designing, fabricating³, producing⁴, or packaging⁵ any (a) semiconductor fabrication equipment, equipment for volume advanced packaging, or commodities, materials, software, or technologies for lithography fabrication equipment, (b) integrated circuits, or (c) software for the design of integrated circuits or advanced packaging; or
 - (7) engage in developing, producing, installing, or selling any “supercomputer,”⁶ quantum computer (or any components for the production of a quantum computer), quantum sensing platform, quantum network, or quantum communication system.
- (h) No entity in the Group:
- (1) is included on the Commerce Department’s Bureau of Industry and Security’s (“**BIS**”) Entity List or Military End User List (15 C.F.R. part 744, supplement nos. 4 and 7);
 - (2) meets the definition of “Military Intelligence End-User” (as defined at 15 C.F.R. § 744.22(f)(2));
 - (3) is included on OFAC’s Specially Designated Nationals and Blocked Persons list (“**SDN List**”), or is 50% or more, individually or in the aggregate, directly or indirectly, owned by individuals or entities on the SDN List;

³ “Fabricate” means to form devices such as transistors, poly capacitors, non-metal resistors, and diodes on a wafer of semiconductor material.

⁴ “Produce” means to engage in any of the post-development stages of realizing the relevant technology or product, such as engineering, manufacture, integration, assembly, inspection, testing, and quality assurance.

⁵ “Package” means to assemble various components, such as the integrated circuit die, lead frames, interconnects, and substrate materials to safeguard the semiconductor device and provide electrical connections between different parts of the die. “Advanced packaging” means to package integrated circuits in a manner that supports the two-and-one-half-dimensional (2.5D) or three-dimensional (3D) assembly of integrated circuits, such as by directly attaching one or more die or wafer using through-silicon vias, die or wafer bonding, heterogeneous integration, or other advanced methods and materials.

⁶ The specific supercomputer described in the OISP regulations is a “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.” See 31 C.F.R. § 850.224(f).

- (4) is included on Treasury's list of Non-SDN Chinese Military-Industrial Complex Companies; or
- (5) is designated as a foreign terrorist organization by the Secretary of State under 8 U.S.C. § 1189.

III. OISP Applicability

A. OISP Regulatory Background

President Joseph R. Biden issued EO 14105, which declared a national emergency to address the threat to the United States posed by countries of concern that seek to develop and exploit sensitive technologies or products critical for military, intelligence, surveillance, or cyber-enabled capabilities.⁷ EO 14105 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 (i) certain entities located in or subject to the jurisdiction of a "country of concern" and (ii) certain other entities owned by persons of a "country of concern," involved in activities related to specific categories of advanced technologies and products. EO 14105 identifies three categories of national security technologies and products for the program: semiconductors and microelectronics, quantum information technologies, and AI. In an annex to EO 14105, President Biden identified the People's Republic of China, along with the Special Administrative Regions of Hong Kong and Macau (collectively, "**China**"), as a "country of concern".

On 28 October 2024, Treasury issued a final rule to implement EO 14105, setting forth the OISP regulations.⁸ The OISP regulations, which went into effect as of 2 January 2025, among other things:

- prohibit "U.S. persons" from engaging in certain transactions with "covered foreign persons";
- require "U.S. persons" to notify Treasury of certain transactions with "covered foreign persons";
- require "U.S. persons" to take all reasonable steps to prohibit and prevent their controlled foreign entities from engaging in certain transactions;
- require "U.S. persons" to notify Treasury of certain transactions of their controlled foreign entities; and
- prohibit "U.S. persons" from knowingly directing a foreign person to engage in certain transactions.

Whether a transaction falls within the scope of the OISP regulations turns, in part, on the parties to the transaction, the ownership and control of such parties, and whether the activities in which the relevant "person of a country of concern" or relevant joint venture is engaged are "covered activities". Certain defined terms in the OISP regulations are set forth below:

- a "**U.S. person**" is "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"⁹;

⁷ See 88 Fed. Reg. 54867 (Aug. 11, 2023).

⁸ See 89 Fed. Reg. 90398 (Nov. 15, 2024) (codified at 31 C.F.R. part 850).

⁹ 31 C.F.R. § 850.229.

- a **“person of a country of concern”** is:
 - (a) “any individual that:
 - (1) is a citizen or permanent resident of a country of concern;
 - (2) is not a U.S. citizen; and
 - (3) is not a permanent resident of the United States;
 - (b) an entity with a principal place of business in, headquartered in, or incorporated in or otherwise organized under the laws of, a country of concern;
 - (c) the government of a country of concern, including any political subdivision, political party, agency, or instrumentality thereof; any person acting for or on behalf of the government of a country of concern; or any entity with respect to which the government of a country of concern holds individually or in the aggregate, directly or indirectly, 50 percent or more of the entity’s outstanding voting interest, voting power of the board, or equity interest, or otherwise possesses the power to direct or cause the direction of the management and policies of such entity (whether through the ownership of voting securities, by contract, or otherwise);
 - (d) any entity in which one or more persons identified in the preceding paragraphs (a), (b), or (c) of this section, individually or in the aggregate, directly or indirectly, holds at least 50 percent of any of the following interests of such entity: outstanding voting interest, voting power of the board, or equity interest; or
 - (e) any entity in which one or more persons identified in the preceding paragraph (d) of this section, individually or in the aggregate, directly or indirectly, holds at least 50 percent of any of the following interests of such entity: outstanding voting interest, voting power of the board, or equity interest;”¹⁰
- a **“covered foreign person”** is:
 - (a) a “person of a country of concern” that engages in a “covered activity”; or
 - (b) a person that directly or indirectly holds a board seat on, a voting or equity interest (other than through securities or interests that would satisfy the conditions in 31 C.F.R. § 850.501(a) if held by a U.S. person) in, or any contractual power to direct or cause the direction of the management or policies of any “person of a country of concern” engaged in a “covered activity” from or through which it:
 - (1) derives more than 50 percent of its revenue individually, or as aggregated across such persons from each of which it derives at least \$50,000 (or equivalent) of its revenue, on an annual basis;
 - (2) derives more than 50 percent of its net income individually, or as aggregated across such persons from each of which it derives at least \$50,000 (or equivalent) of its net income, on an annual basis;

¹⁰ 31 C.F.R. § 850.221.

- (3) incurs more than 50 percent of its capital expenditure individually, or as aggregated across such persons from each of which it incurs at least \$50,000 (or equivalent) of its capital expenditure, on an annual basis; or
 - (4) incurs more than 50 percent of its operating expenses individually, or as aggregated across such persons from each of which it incurs at least \$50,000 (or equivalent) of its operating expenses, on an annual basis;¹¹
- a “**covered activity**” is any of the activities referred to in the definitions of “notifiable transaction” or “prohibited transaction”;¹²
- an “**AI system**” is:
 - (a) any 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:
 - (1) uses data inputs to perceive real and virtual environments;
 - (2) abstracts such perceptions into models through automated or algorithmic statistical analysis; and
 - (3) uses model inference to make a classification, prediction, recommendation, or decision.
 - (b) any data system, software, hardware, application, tool, or utility that operates in whole or in part using a system described in paragraph (a) of this section;¹³
- a “**notifiable transaction**”¹⁴ includes certain covered transactions involving a “covered foreign person” engaged in the following “covered activities” that are not described in the “prohibited transaction” definition:
 - (a) designing, fabricating, or packaging integrated circuits; or
 - (b) developing an “AI system”
 - (1) designed to be used for any military end use (e.g., for weapons targeting, target identification, combat simulation, military vehicle or weapons control, military decision-making, weapons design (including chemical, biological, radiological, or nuclear weapons), or combat system logistics and maintenance); or 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);
 - (2) intended by the covered foreign person or joint venture to be used for any of the following:

¹¹ 31 C.F.R. § 850.209.

¹² 31 C.F.R. § 850.208; *see also* 31 C.F.R. §§ 850.217, 850.224.

¹³ 31 C.F.R. § 850.202.

¹⁴ 31 C.F.R. § 850.217.

- a. cybersecurity applications;
 - b. digital forensics tools;
 - c. penetration testing tools; or
 - d. the control of robotic systems; or
 - (3) trained using a quantity of computing power greater than 10^{23} computational operations (e.g., integer or FLOPs).
- a “**prohibited transaction**”¹⁵ includes certain covered transactions involving a “covered foreign person” engaged in the following “covered activities”¹⁶:
 - (a) developing an “AI system” that is designed to be exclusively used for, or which the relevant covered foreign person intends to be used for, any:
 - (1) 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
 - (2) 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);
 - (b) developing an “AI system” that is trained using a quantity of computing power greater than:
 - (1) 10^{25} computational operations (e.g., integer or FLOPs); or
 - (2) 10^{24} computational operations (e.g., integer or FLOPs) using primarily biological sequence data.
 - (c) developing or producing electronic design automation software for the design of integrated circuits or advanced packaging;
 - (d) developing or producing:
 - (1) front-end semiconductor fabrication equipment designed for performing the volume fabrication of integrated circuits, including equipment used in the

¹⁵ 31 C.F.R. § 850.224. The “AI system” “covered activities” in the “prohibited transaction definition” are described in 31 C.F.R. § 850.224(j)-(k).

¹⁶ 31 C.F.R. § 850.224. The OISP regulations also include several excepted transactions, pursuant to which a transaction engaged in by a U.S. person that would otherwise constitute a “notifiable transaction” or a “prohibited transaction” is neither a “notifiable transaction” nor a “prohibited transaction” if the conditions set forth in 31 C.F.R. § 850.501 are met. One such excepted transaction is a transaction that otherwise would constitute a “notifiable transaction” or a “prohibited transaction” and that (i) involves a U.S. person’s investment in any “publicly traded security, with ‘security’ as defined in section 3(a)(10) of the Securities Exchange Act of 1934, as amended, at 15 U.S.C. § 78c(a)(10) . . . and that trades on a securities exchange or through the method of trading that is commonly referred to as ‘over-the-counter’ in any jurisdiction” and (ii) does not afford the U.S. person rights beyond standard minority shareholder protections as set forth more fully in the OISP regulations. See 31 C.F.R. § 850.501(a)(1)(i), (2).

- 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);
- (2) equipment for performing volume advanced packaging; or
- (3) commodity, material, software, or technology designed exclusively for use in or with extreme ultraviolet lithography fabrication equipment;
- (e) designing integrated circuits that meet or exceed the performance parameters in ECCN 3A090.a, or integrated circuits designed for operation at or below 4.5 Kelvin;
- (f) fabricating:
 - (1) logic integrated circuits using a non-planar transistor architecture or with a production technology node of 16/14 nanometers or less, including FDSOI integrated circuits;
 - (2) NAND memory integrated circuits with 128 layers or more;
 - (3) DRAM integrated circuits using a technology node of 18 nanometer half-pitch or less;
 - (4) integrated circuits manufactured from a gallium-based compound semiconductor;
 - (5) integrated circuits using graphene transistors or carbon nanotubes; or
 - (6) integrated circuits designed for operation at or below 4.5 Kelvin;
- (g) packaging integrated circuits using advanced packaging techniques;
- (h) developing, installing, selling, or producing supercomputers 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;
- (i) developing a quantum computer or producing any of the critical components required to produce a quantum computer such as a dilution refrigerator or two-stage pulse tube cryocooler;
- (j) developing or producing any quantum sensing platform designed for, or which the relevant covered foreign person intends to be used for, any military, government intelligence, or mass-surveillance end use;
- (k) developing or producing any quantum network or quantum communication system designed for, or which the relevant covered foreign person intends to be used for:
 - (1) networking to scale up the capabilities of quantum computers, such as for the purposes of breaking or compromising encryption;
 - (2) secure communications, such as quantum key distribution; or

- (3) any other application that has any military, government intelligence, or mass-surveillance end use; and
- (l) certain covered transactions involving a “covered foreign person” that is engaged in a “covered activity” and that is:
 - (1) included on BIS’s Entity List or Military End User List (15 C.F.R. part 744, supplement nos. 4 and 7);
 - (2) a “Military Intelligence End-User,” as defined by BIS (15 C.F.R. § 744.22(f)(2));
 - (3) included on the SDN List, or is 50% or majority owned by individuals or entities on the SDN List;
 - (4) included on the Treasury’s list of Non-SDN Chinese Military-Industrial Complex Companies; or
 - (5) designated as a foreign terrorist organization by the Secretary of State under 8 U.S.C. § 1189.

B. Application to the Group

1. *“Covered Foreign Person” Analysis Based on the Group’s Activities*

In our analysis of whether the Group should be considered a “covered foreign person,” we assessed both of the following elements of the “covered foreign person” definition in 31 C.F.R. § 850.209 based on the information provided by the Company, as set forth in Section II above:

- whether the Group is a “person of a country of concern” that engages in a “covered activity”; and
- whether the Group, directly or indirectly, holds, a board seat on, a voting or equity interest in, or any contractual power to direct or cause the direction of the management or policies of any “person of a country of concern” that engages in a “covered activity” and from or through which the Group, on an annual basis, does any of the following (collectively, the **“Financial Metrics”**):
 - o derives more than 50 percent of its revenue individually, or as aggregated across all such persons;
 - o derives more than 50 percent of its net income individually, or as aggregated across all such persons;
 - o incurs more than 50 percent of its capital expenditure individually, or as aggregated across all such persons; or
 - o incurs more than 50 percent of its operating expenses individually, or as aggregated across all such persons.

i. *“Person of a Country of Concern” Assessment*

We believe that the Company should be considered a “person of a country of concern” because (i) although the Company has confirmed that it is incorporated under the laws of the Cayman Islands, it

has also confirmed that it is headquartered in Guangzhou, China and (ii) EO 14105 designates China as a country of concern. Because the Company is considered a “person of a country of concern” on the basis that it has confirmed that its headquarters is in China, the Company’s “subsidiaries” (as defined for purposes of this memorandum) should also be considered “persons of a country of concern” because (i) based on the definitions of “parent” and “subsidiary” in the OISP regulations, the Company directly or indirectly holds at least 50 percent of the equity interests of its subsidiaries and (ii) the definition of “person of a country of concern” in the OISP regulations includes any entity in which one or more entities with a principal place of business in, headquartered in, or incorporated in or otherwise organized under the laws of, a country of concern, individually or in the aggregate, directly or indirectly, holds at least 50 percent of any of the following interests of such entity: outstanding voting interest, voting power of the board, or equity interest.

ii. “Covered Foreign Person” Assessment

The Company has confirmed that it derives 50% or more of each of the Financial Metrics from its subsidiaries, as aggregated across all such subsidiaries. Accordingly, if any of the Company and its subsidiaries (i.e., the Group) are engaged in “covered activities” then the Company would meet the definition of a “covered foreign person.”

With respect to the AI sector, the Company has confirmed that (i) the Group develops AI models that are employed in the Company’s autonomous driving systems in order to control such systems for vehicles on the open road and (ii) such systems could be considered robotic systems. Based on the information provided by the Company and as explained in further detail below, the Group’s activities may constitute one of the “covered activities” related to “AI systems” that are described in 31 C.F.R. 850.217 (notifiable transaction) but do not appear to constitute any of the “covered activities” related to “AI systems” that are described in 31 C.F.R. § 850.224 (prohibited transaction).¹⁷ Further, the Company has confirmed that the Group is not identified on any of the lists, and does not satisfy any of the definitions, described in 31 C.F.R. § 850.224(m)(1)-(6) (prohibited transaction). On this basis, the Group’s activities should be treated as “notifiable transaction” “covered activities” and should not be treated as “prohibited transaction” “covered activities” under the OISP regulations.

For an item to constitute an “AI system” under the OISP regulations, it must meet three specific criteria that identify the item as one able to “make predictions, recommendations, or decisions influencing real or virtual environments based on a given-set of human defined objectives.”¹⁸ The three conjunctive criteria require that the item: (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.¹⁹ As specified in Section II(c), the Company has confirmed that the Group develops AI models that are employed in its automated driving systems that satisfy these three specific criteria. The Company has further confirmed that certain of the AI models that the Group develops may meet the criteria for “covered activities” related to “AI systems” that are described in 31 C.F.R. § 850.217(d)(2)(iv) (“notifiable transaction”) because the Group’s AI models appear to be intended to be used for the control of robotic systems, and the Company’s activities do not appear to meet the criteria for “covered activities” related to “AI systems” that are described in 31 C.F.R. § 850.224 (prohibited transaction).

¹⁷ See 31 C.F.R. §§ 850.217(d), 850.224(j)-(k).

¹⁸ 31 C.F.R. § 850.202.

¹⁹ 31 C.F.R. § 850.202.

Specifically, with respect to the “prohibited transaction” “covered activities” described in 31 C.F.R. § 850.224 (prohibited transaction), the Company has confirmed that the Group does not develop an “AI system” that is 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 (e.g., integer or floating-point operations) using primarily biological sequence data (as described in 31 C.F.R. § 850.224(k)(1) and (k)(2), respectively). Moreover, the Company has confirmed that the Group does not develop an “AI system” that is designed to be exclusively used for, or for which the Group intends to be use 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) (as described in 31 C.F.R. § 850.224(j)(1) and (j)(2), respectively).

Further, the Company has confirmed that none of the members of the Group is:

- included on BIS’s Entity List or Military End User List (15 C.F.R. part 744, supplement nos. 4 and 7); therefore, the Group is not engaged in any “prohibited transaction” described in 31 C.F.R. § 850.224(m)(1) or (2);
- a “Military Intelligence End-User,” as defined by BIS (15 C.F.R. § 744.22(f)(2)); therefore, the Group is not engaged in any “prohibited transaction” described in 31 C.F.R. § 850.224(m)(3);
- included on the Treasury’s SDN List, or is 50% or majority owned by individuals or entities on the SDN List; therefore, the Group is not engaged in any “prohibited transaction” described in 31 C.F.R. § 850.224(m)(4);
- included on Treasury’s NS-CMIC List; therefore, the Group is not engaged in any “prohibited transaction” described in 31 C.F.R. § 850.224(m)(5); or
- designated as a foreign terrorist organization by the Secretary of State under 8 U.S.C. § 1189; therefore, the Group is not engaged in any “prohibited transaction” described in 31 C.F.R. § 850.224(m)(6).

Therefore, none of the members of the Group is identified on any of the lists, or satisfies any of the definitions, included in Section 850.224(m)(1)-(6) of the OISP regulations.

With respect to the “notifiable transaction” “covered activities” described in 31 C.F.R. § 850.217, the Company has confirmed that the Group develops AI models that are employed in its automated driving systems to control such systems and that such systems could be considered robotic systems, meaning that the Group’s activities regarding AI models may include activities that fall within the scope of § 850.217(d)(2)(iv) (AI systems “[i]ntended . . . to be used for . . . the control of robotic systems”), which would make them “notifiable activities.”

In promulgating the OISP regulations, Treasury described certain public comments that suggested that “the notification requirement for certain AI systems involving the ‘control of robotic systems’ could be narrowed to exclude certain commercial or civilian applications, [including] specific carveouts for medical and direct patient care, or automotive use.” Treasury responded to these public comments as follows:

The Treasury Department recognizes that this provision may implicate certain consumer or civilian applications, due to the dual-use nature of controlling robotic systems, and considered options for rescoping the provision, including carveouts based on direct patient care or robotic systems with lower levels of autonomy. Given the potential and significant capability enhancement afforded by AI systems in the area of controlling robotic systems, however, the Treasury Department assesses in consultation with U.S. Government subject-matter experts that a sectoral carveout for medical or automotive applications in the notification requirement would reduce the U.S. Government's visibility into transactions involving dual-use technologies and products relevant to national security.²⁰

Accordingly, given the information provided by the Company and Treasury's description of its rationale for not incorporating a carveout for the automotive sector for AI systems "[i]ntended . . . to be used for . . . the control of robotic systems", the Company appears to be developing an "AI system" that falls within the "notifiable transaction" definition of "covered activities."

With respect to the activities related to the semiconductors and microelectronics and quantum information technologies sectors that are described in 31 C.F.R. § 850.224 (prohibited transaction) and 31 C.F.R. § 850.217 (notifiable transaction), the Company has confirmed that the Group does not engage in any such activities.²¹

Based on the information confirmed by the Company, the Group does not appear to be engaged in any "covered activities" falling within the definition of "prohibited transaction" in the OISP regulations. However, the Group does appear to be engaged in a "covered activity" that falls within the definition of a "notifiable transaction" in the OISP regulations. Accordingly, it is likely that the Company and each member of the Group could be considered a "covered foreign person" as defined at 31 C.F.R. § 850.209.

2. *"Covered Foreign Person" Analysis in Connection with Persons Outside the Group*

The Company has confirmed that, with the exception of the Company's subsidiaries (which are covered under the analysis of the first element of the "covered foreign person" definition for the Group above), the Company does not, directly or indirectly, hold a board seat on, a voting or equity interest in, or any contractual power to direct or cause the direction of the management or policies of, any person. Accordingly, no member of the Group appears to meet the definition of "covered foreign person" as a result of its relationship with entities outside the Group.

IV. Scope and Use of this Memorandum

This memorandum has been prepared by HLI as legal advisor to, and based on the directions of, the Company for the information of the Company only and for the sole purpose of assisting the Company in determining whether the Group should be considered a "covered foreign person" under the OISP regulations. We have prepared this memorandum upon the express understanding that it will be used only for that purpose and not as a recommendation or inducement to any person or entity to enter into the Transaction or any other transaction. This memorandum should not be treated as a substitute for, and does not itself constitute, a warranty, indemnity, or other protection customary for any transaction. This memorandum also is not intended as a full legal diligence review of any of any the issues

²⁰ 89 Fed. Reg. 90398, 90426 (Nov. 15 2024) (codified at 31 C.F.R. part 850).

²¹ See 31 C.F.R. §§ 850.217(a)-(c), 850.224(a)-(i); and see Sections II(6) and (7) above.

discussed herein, nor is it intended to provide any assessment of any of the Group's existing policies or procedures implemented to manage its compliance with the OISP regulations. Moreover, this memorandum does not purport to describe all of the advice and other matters we have discussed with the Company regarding the OISP regulations or the Transaction. The analysis, views and conclusions contained herein are based solely on information provided and certified to us by the Company, which information we have assumed, without independent investigation, verification or inquiry, to be accurate and complete in all respects. We make no representation or warranty regarding the completeness or sufficiency of this memorandum, or the scope or procedures it describes, for any purpose.

This memorandum is only intended for the benefit of the Company; provided, however, that we shall not have any liability (whether under statute, in contract, in equity, in tort or otherwise) to the Company with respect to, or resulting from, this memorandum (or anything contained in or omitted from this memorandum) or the furnishing of this memorandum to the Company; provided, further, that nothing in these terms regarding the receipt and use of this memorandum by the Company shall limit our liability to the Company for any loss due to our fraud, bad faith, gross negligence, or willful default.

Except as hereafter expressly agreed in writing by HLI, no person or entity is entitled to rely upon or use this memorandum or any matter to which it refers for any purpose, other than the Company for the purpose stated above.

The contents of this memorandum are confidential and may not be used by, filed with, or provided, circulated, quoted, or referred to or otherwise disclosed to any other person or entity (including, without limitation, any governmental authority), in whole or in part, without our express prior written consent, which may be withheld at our discretion.

Notwithstanding the immediately preceding paragraph, at your request we hereby agree that the Company may furnish a copy of this memorandum to Goldman Sachs (Asia) L.L.C., Merrill Lynch (Asia Pacific) Limited, Huatai Financial Holdings (Hong Kong) Limited, and Deutsche Securities Asia Limited as the Joint Sponsors of the Transaction (collectively, "**Recipient**"), without the right or permission for Recipient to rely on this memorandum, for purposes of information only and on the condition and understanding that:

- (a) the disclosure of this memorandum to Recipient is permitted, and shall be made, for the sole purpose of enabling Recipient to be informed that advice on the matters discussed herein has been received by the Company, solely in order to facilitate Recipient's independent review and analysis, including, as appropriate, with the advice of Recipient's own counsel, of such matters, but not for purposes of reliance thereon or as advice to Recipient by HLI; and that Recipient is obtaining, and will rely solely on, its own independent judgment and the advice of its own counsel with regard to the matters discussed in this memorandum and shall not use this memorandum for any purpose other than as expressly permitted above in this clause (a) nor claim or assert that Recipient or its counsel or any other advisor or representative has relied or is entitled to rely on this memorandum;
- (b) the disclosure of this memorandum to Recipient as permitted above shall not constitute legal or other advice or an opinion to Recipient, the receipt and use of this memorandum by Recipient shall be without recourse to us, and in authorizing the Company to provide a copy or other disclosure of this memorandum to Recipient we are not undertaking or assuming any duty, liability or obligation to (or establishing any lawyer-client relationship with) Recipient, it being understood that we have acted as counsel only to the Company and have considered only the interests of the Company

and not those of Recipient or any other person or entity, which interests may well be different from those of the Company and may be affected by different legal and other considerations; and

- (c) by receiving a copy or other disclosure of this memorandum, Recipient shall be deemed to have agreed (1) to keep this memorandum and the contents hereof confidential and not to provide copies of or disclose this memorandum or any of its contents to any other person, or entity (including, without limitation, any governmental authority) or quote or refer to it in any public document or file it with any person or entity and (2) to accept and comply with the terms of this Section IV, except that the contents of this memorandum may be disclosed, on a non-reliance basis, in connection with the Transaction to the extent that disclosure is required by applicable law, rule or regulation to the Stock Exchange of Hong Kong Limited, the Hong Kong Securities and Futures Commission, the Hong Kong Companies Registry, or the China Securities Regulatory Commission.

This memorandum speaks only as of the date set forth on the first page hereof (except as to matters for which an earlier date is specified herein), and we have no responsibility or obligation to update this memorandum, to consider its applicability or correctness to any person or entity (including Recipient) other than the Company for the purpose set forth in the first paragraph of this Section IV, or to investigate, report or take into account any changes in law, regulations, facts or other developments of which we may become aware, or to inform the Company (or any other person or entity) if any of the statements, views or conclusions contained herein should subsequently be modified or become incorrect. Restriction of outbound investments is a rapidly evolving and unpredictable area of law and regulation in the United States, and, as noted above, the OISP regulations are subject to change or repeal at any time and without advance notice, including by the administration of President Trump or the U.S. Congress, which is considering outbound investment legislation that is in part inconsistent with the OISP regulations.

We note that any analysis of OISP regulatory matters is highly fact-specific, and therefore any inaccuracy, omission or change in the facts and circumstances described in or assumed for purposes of this memorandum could materially affect or invalidate the analysis, assessments, views, or conclusions expressed herein. The analysis in this memorandum is based on the information provided by the Company as set forth in Section II and referred to elsewhere in this memorandum, all of which we have assumed to be accurate and complete, without independent investigation, verification or inquiry by us. There is no assurance that the Group's activities or the applicable restrictions will not evolve in a manner that changes the analysis or the conclusion with regard to whether the Group would satisfy the definition of a "covered foreign person" and/or engage in a "covered activity".

The conclusions expressed in this memorandum are based solely on our own reading of the apparent meaning of the text of the OISP regulations. The conclusions stated in this memorandum are not binding on Treasury or on any other regulatory or judicial authority, which have substantial discretion in determining whether to investigate particular transactions or relationships or to pursue enforcement. Accordingly, there can be no assurances that Treasury or any other such authority will not ultimately pursue sanctions or otherwise take actions that are contrary to the conclusions set forth in this memorandum. Such conclusion is based solely on our interpretation of the applicable laws referred to herein; and we assume no liability based on any conclusion or holding of any such authority that is inconsistent with our interpretation and conclusion.

We note that, based on publicly available information of which we are aware, the OISP regulations have not been applied in an enforcement matter by any U.S. federal agency (including Treasury), court, or other regulatory, judicial or other legal authority; and we assume no liability based on any conclusion or holding of any such authority that is inconsistent with our interpretations and conclusions. We assume no liability with respect to any unpublished, not yet effective, agency policies, positions or other statements regarding actions to implement the OISP regulations. We further note that (i) Treasury has issued only a set of Frequently Asked Questions, dated 13 December 2024, 17 January 2025, and 23 May 2025 (the “OISP FAQs”), which include, among other things, explanations and examples of defined terms, such as “engage in” and “covered foreign person,” that are generally consistent with our own reading of the apparent meaning of the text of the OISP regulations but do not address the specific circumstances discussed in this memorandum, (ii) because the OISP regulations have been effective only since 2 January 2025, we are not aware of any publicly available enforcement or precedent at this time for the U.S. Administration’s or the courts’ interpretation, application or enforcement of the OISP regulations, (iii) President Trump has issued a memorandum, dated 20 January 2025, entitled “America First Trade Policy” directing the Secretary of the Treasury to determine whether EO 14105 “should be modified or rescinded and replaced” and to assess whether the OISP regulations “include[] sufficient controls to address national security threats,” and (iv) President Trump issued a memorandum, dated 21 February 2025, entitled “America First Investment Policy” stating that the Trump Administration’s review of EO 14105 shall include “consider[ation of] new or expanded restrictions on United States outbound investment in the PRC in sectors, such as semiconductors, artificial intelligence (“AI”), quantum, biotechnology, hypersonics, aerospace, advanced manufacturing, directed energy, and other areas.”

We offer no advice in this memorandum as to any statutes, rules, regulations, or decisional law other than the OISP regulations specifically referred to, and subject to the exclusions and limitations, in this memorandum (and, in particular, we offer no view, assessment or other advice as to the applicability to the Group of such other statutes, rules, regulations, or decisional law or as to the effect that they may have on the views, assessments or other advice provided herein). For the avoidance of doubt and without limiting the foregoing, we offer no advice in this memorandum as to statutes, treaties, rules, regulations, or decisional law relating to trade regulation, export controls or economic sanctions, inbound or outbound investment controls, national security or terrorism (other than the OISP regulations, as expressly set forth in this memorandum), securities, antitrust and unfair competition, intellectual property, emergencies, foreign corrupt practices, money laundering, antifraud, racketeering, criminal or civil forfeiture or other criminal acts including mail and wire fraud, energy, public utilities, communications, transportation, banking, or taxation.

The term “this memorandum” as used in this Section IV includes the contents of this memorandum and any other information that we may provide orally or in writing (including by email) relating to the matters addressed in this memorandum, and the terms of this Section IV shall apply to any such other information provided by us.