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Strictly Confidential

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Aladdin Technology Company Limited
PO Box 31119 Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

Re: Legal Opinion re the proposed IHT Token

Dear Sirs:

Aladdin Technology Company Limited ("**you**" or the "**Company**") has requested this firm to provide a legal opinion (the "**Opinion**") on whether the digital assets sold by Company (singularity the "**IHT**", plurality the "**IHTs**") to be sold in a token sale held by the Company (the "**Token Sale**") would be considered as "securities" under the United States Securities Act of 1933 and the Securities Exchange Act of 1934. Our Opinion and the bases, assumptions and disclaimers in arriving at it are set forth below and in the attached Schedule, which Schedule is incorporated herein by reference.

A. THE BACKGROUND

A.1. We understand that the Company conducted the Token Sale outside of the United States that concluded on May 1, 2018, by issuing IHT Tokens for use on i-house.com platform a protocol-as-a-service that offers a standardized method for property owners to publish an "asset tokenize offering" ("**ATO**") with the intent to act as a neutral agent for deal

execution (the "**Platform**").[1] The Platform has been completed and is fully operational. The Company is interested on having a Token Sale in the United States. We have been provided with the IHT White Paper for the United States Token Sale, authored by the Company (the "**U.S. White Paper**") which will be distributed to the potential participants in the Token Sale. A copy of the U.S. White Paper is attached hereto as Exhibit A in this Opinion.

A.2. Apart from the U.S. White Paper, we have not been provided with any other materials that may be used during the Token Sale in the United States and we have not been asked to review any other marketing materials. In addition, we have had certain discussions with your staff to understand the process and nature of the Token Sale, and have sought your confirmation of certain questions as described in this letter. You have represented that you will conduct your business in the United States consistent with the U.S. White Paper and your representations to us. If the Company's operations deviate from the U.S. White Paper and your representations to us, then you cannot rely on this opinion letter and the IHT Token may be a security in the United States.

A.3. Based on the U.S. White Paper we understand that the Token Sale is conducted by distributing cryptographic tokens to the participants in exchange for other digital assets. Such tokens are commonly referred to as "coins" or "protocol tokens".[2] We note that many similar campaigns accept digital assets such as Bitcoin ("**BTC**") or Ether (the native token on the Ethereum network) ("**ETH**") (collectively referred to as "**Digital Assets**"). We understand that this process can be performed on a variety of distributed ledger or blockchain networks, the most noteworthy being the Ethereum network, that allows users to deploy computer scripts known as "smart contracts" to conduct various transactions.[3]

A.4. Aladdin Technology Company Limited (the "**Issuer**") is established under the laws of Cayman Island as a private company with limited by shares[4] and has conducted the token generation event outside of the United States with the intent to utilizing the

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[1] IHT White Paper.
[2] Sid Kall, "*What is a token sale (ICO)*" (Smith and Crown, June 21, 2016) (found at http://www.smithandcrown.com/what-is-an-ico/).
[3] Anthony Lewis, "*A Gentle Introduction to Ethereum*" (Bits on Blocks, October 2, 2016) found at http://bitsonblocks.net/2016/10/02/a-gentle-introduction-to-ethereum/
[4] Incorporated in Cayman Island on 8 February 2018 with Registration no. 1-332565.

proceeds raised from the Token Sale to maintain i-house.com as a blockchain platform. Before the Token Sale in the United States, the Platform will be fully operational and functional. The Platform incorporates smart contract technology and distributed accounting technology for the purpose of allowing real estate interests available via the Platform's ATO process that utilizes intrinsic advantages of blockchain technology such as a truthlessness, immutability, anti-tampering, co-supervision and traceability.[5]

A.5. Under the i-house.com project, the various assets can be uploaded to the Platform offered by using the Platform's ATO process. Financial institutions will be able to underwrite various proportions of the asset in which users may participate.[6]

A.6. The Platform will allow users of the system to participate in the environment in the following capacities:

(a) "Assets Owners" – who conduct the ATO by separating their assets into portions and uploading them into the Platform, this action requires the Asset Owners to spend IHT to complete the ATO process;[7]

(b) "Financial Institutions" – who can underwrite portions of the assets as published by the Asset Owners, which can then be subsequently repackaged as sub-products for users and be uploaded on their own sales platform or the Platform, this action requires the Financial Institution to spend IHT Token to offer sub-products resulting from the ATO;[8] and

(c) "Users" – who can purchase the sub-product from the Financial Institutions by paying fiat currency or crypto currency (BTC/ETH/IHT) to the Financial Institutions.[9]

A.7. There will be a total supply of one billion (1,000,000,000) IHT Tokens. Thirty-five percent (35%) of IHT Tokens were sold as of May 1, 2018.

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[5] IHT White Paper.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] Ibid.

A.8. ATO is the process where Asset Owners can separate the assets into portions and allow such separation be recorded on the kernel ledger of IHT Token. All transactions for property rights of the assets shall be conducted under the asset's local fiat currency and IHT token's consumption in the wallet is only an inducement mechanism of ATO. The process does not require the various users to pay each other with IHT Tokens.[10]

A.9. The Platform commenced initially with 1.0 version, which offers a standardized initialization and publication process for Asset Owners, both Financial Institutions and Users can search for various assets through the Platform. The second stage of the Platform will involve launching the 2.0 version where it acts as an asset segmentation and management platform through the construction of a mobile information application. Finally, version 3.0 will provide an exchange platform where portions of sub-products of Financial Institutions and Asset Owners can be exchanged.[11] The Token Sale will not occur in the United States until after version 3.0 has been completed and the Platform is fully operational.

A.10. Once the assets and/or sub-products have been segregated and made available on the Platform, the trading of the assets and the sub-products will be made with fiat currency or cryptocurrency.[12]

A.11. The U. S. White Paper contains a list of disclaimers and risk factors. Nevertheless, the Company should implement measures to disclose and address the risk factors[13] in order to minimize exposure to the risk and from creating probable cause for the Securities and Exchange Commission to initiate an investigation into the Token Sale. Participation in the Token Sale should require potential participants to acknowledge that they have read and understand the U.S. White Paper, thus agreeing to the risk disclosures that should be contained in the U.S. White Paper and been given the opportunity by means of an appropriate format to ask questions and receive satisfactory responses about the Token Sale.

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[10] Ibid.
[11] Ibid.
[12] Ibid.
[13] Ibid.

B. THE ISSUE

We have been asked to address whether the IHT Token would constitute "securities" under the Securities Act of 1933 and the Securities Exchange Act of 1934, including the regulations and rules promulgated thereunder.

C. OUR OPINION

Overview of the regulatory regime

C.1. In the United States, the regulation of financial products which are intended to serve the retail investor market are supervised by the Securities and Exchange Commission (SEC), which is an independent agency of the United States federal government and which derives its powers to supervise, investigate and regulate from Section 4 of the Securities Exchange Act of 1934[14] The SEC works with other regulatory bodies such as the Financial Industry Regulatory Authority (FINRA), the Securities Investor Protection Corporation (SIPC) and Municipal Securities Rulemaking Board (MSRB) as well as other federal agencies, state securities regulators, international securities agencies and federal and state law enforcement agencies to supervise the financial system in the United States. The SEC maintains its regulatory objectives by strictly regulating securities, securities transactions and certain individuals and firms who participate in the U.S. securities markets. The SEC does not have direct oversight of transactions in currencies or commodities, including currency trading platforms. The Securities Exchange Act of 1934 vests various functions and powers to the SEC to regulate secondary trading between individuals and companies which are often unrelated to the original issuers in the securities and futures industry and to meet its other statutory and policy objectives. In addition to the Securities Act of 1933 and the Securities Exchange Act of 1934, the SEC enforces the Trust Indenture Act of 1939, the Investment Company Act of 1940, the Investment Advisors Act of 1940, the Sarbanes-Oxley Act of 2002 and other statutes. The SEC places various restrictions on individuals and companies which intend to offer financial products to the public. New technologies have made crowd-funding a popular way to raise capital for start-ups and small businesses by legally avoiding the strict traditional capital raising methods. Token sales of the kind that the Company envisages to undertake have become a very popular

[14] 15 U.S.C. §78

way to raise funds, and thus have become subject to certain levels of scrutiny by the U.S. Securities and Exchange Commission[15] and various regulatory bodies in other jurisdictions including the Hong Kong Monetary Authority ("HKMA"), the UK Financial Conduct Authority[16] and certain jurisdictions going as far as prohibiting the practice such as in People's Republic of China.[17] In September 2017, the SEC's Division of Enforcement established a new Cyber Unit focused on misconduct involving distributed ledger technology and initial coin offerings (ICOs), the spread of false information through electronic and social media, brokerage accounts takeovers, hacking to obtain non-public information and threats to trading platforms.[18] The Cyber Unit works with the SEC's Distributed Ledger Technology Working Group, which was created in November 2013.

C.2. Digital tokens such as BTC, ETH and IHT Tokens are primarily classified as "virtual commodities" in the United States. On March 6, 2018, the U.S. District Court for the Eastern District of New York, *Commodity Futures Trading Commission v. Patrick K. McDonnell and CabbageTech Corp. d/b/a Coin Drop Markets*, Case No.: 1:18-cv-00361 ruled that the U.S. Commodity Futures Trading Commission (CFTC) had standing to bring a fraud lawsuit against a New York resident and his company allowing the case to proceed. The Court also entered a preliminary injunction barring the owner and CabbageTech Corp. from engaging in commodity transactions. The CFTC, which is tasked with regulating commodity futures and derivative markets, first determined that virtual currencies are commodities in 2015. In the cited lawsuit the CFTC said that the individual defendant and his company fraudulently offered customers virtual currency trading advice. The CFTC alleges that customers never received the advice for which they paid and that CabbageTech Corp. never registered with the CFTC. This case addresses fraud relating to trading cryptocurrency derivatives products (*i.e.* bitcoin futures, swaps). While the Company is not involved in trading transactions as the issuer

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[15] Securities and Exchanges Commission (2017) "Report of Investigation Pursuant to Section 21(a) of the Securities Exchanges Act 1934: the DAO" and, Securities and Exchanges Commission (2017) "Investors Bulleting: Initial Coin Offerings"
[16] Financial Conduct Authority (2017) "Initial Coin Offerings, Consumer warning about the risks of Initial Coin Offerings ("ICO")"
[17] Peoples Bank of China (2017) "*Announcement No.21*"
[18] See Press Release 2017-176, SEC announces Enforcement Initiatives to Combat Cyber-Based Threats and Product Related Investors (September 25, 2017) https://www.sec.gov/news/press-release/2017-185-0

of IHT Tokens, any such trading activities in the future may subject the Company to possible scrutiny.

C.3. Offerings of investments in the United States are strictly regulated by the SEC. Section 5 of the Securities Act of 1933 prohibits the advertisement of offers and invitations to acquire, dispose or subscribe for securities unless a registration statement is in effect as to that security or there is an available exemption from registration. The registration provisions of the Securities Act contemplate that the offer or sale of securities to the public must be accompanied by the "full and fair disclosure" afforded by registration of the securities with the SEC and delivery of a statutory prospectus containing information necessary to enable prospective purchasers to make an informed investment decision. Registration entails disclosure of detailed "information about the issuer's financial condition, the identity and background of management, and the price and amount of securities to be offered ...." *SEC v. Cavanagh*, 1 F. Supp. 2d 337, 360 (S.D.N.Y. 1998), *aff'd*, 155 F.3d 129 (2d Cir. 1998). "The registration statement is designed to assure public access to material facts bearing on the value of publicly traded securities and is central to the Act's comprehensive scheme for protecting public investors." *SEC v. Aaron*, 605 F.2d 612, 618 (2d Cir. 1979) (citing *SEC v. Ralston Purina Co.*, 346 U.S. 119, 124 (1953)), *vacated on other grounds*, 446 U.S. 680 (1980). Section 5(a) of the Securities Act provides that, unless a registration statement is in effect as to a security, it is unlawful for any person, directly or indirectly, to engage in the offer or sale of securities in interstate commerce. Section 5(c) of the Securities Act provides a similar prohibition against offers to sell, or offers to buy, unless a registration statement has been filed. Thus, both Sections 5(a) and 5(c) of the Securities Act prohibit the unregistered offer or sale of securities in interstate commerce. 15 U.S.C. § 77e(a) and (c). Violations of Section 5 do not require scienter. *SEC v. Universal Major Indus. Corp.*, 546 F.2d 1044, 1047 (2d Cir. 1976).[19]

C.4. The definition of "issuer" is broadly defined to include "every person who issues or proposes to issue any security" and "person" includes "any unincorporated organization." U.S.C. § 77b(a)(4). The term "issuer" is flexibly construed in the Section 5 context "as issuers devise new ways to issue their securities and the definition of a

[19] Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO, Release No. 81207 / July 25, 2017.

security itself expands." *Doran v. Petroleum Mgmt. Corp.*, 545 F.2d 893, 909 (5th Cir. 1977); *accord SEC v. Murphy*, 626 F.2d 633, 644 (9th Cir. 1980) If IHT Tokens were determined to be a security, the Company would fall within the definition of "issuer" and be required to register the securities unless an exemption is available.

C.5. Intermediaries who deal with activities that are core to the securities and futures industry are supervised by the SEC and CFTC, respectively. The SEC and CFTC prohibit the carrying out of a business in regulated activities and any regulated function in relation to the regulated activities for which a license or registration is required. In this regard, the SEC monitors the cryptocurrency-related activities of the market participants it regulates, including brokers, dealers, investment platforms and trading platforms. Financial products that are limited to underlying digital assets, including cryptocurrencies, may be structured as securities products subject to the federal securities laws, even if underlying cryptocurrencies are not themselves securities.

C.6. Section 5 of the Exchange Act makes it unlawful for any broker, dealer, or exchange, directly or indirectly, to effect any transaction in a security, or to report any such transaction, in interstate commerce, unless the exchange is registered as a national securities exchange under Section 6 of the Exchange Act, or is exempted from such registration. *See* 15 U.S.C. §78e. Section 3(a)(1) of the Exchange Act defines an "exchange" as "any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange as that term is generally understood ... ." 15 U.S.C. § 78c(a)(1). Exchange Act Rule 3b-16(a) provides a functional test to assess whether a trading system meets the definition of exchange under Section 3(a)(1). Under Exchange Act Rule 3b-16(a), an organization, association, or group of persons shall be considered to constitute, maintain, or provide "a marketplace or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange," if such organization, association, or group of persons: (1) brings together the orders for securities of multiple buyers and sellers; and (2) uses established, non-discretionary methods (whether by providing a trading facility or by setting rules) under which such

orders interact with each other, and the buyers and sellers entering such orders agree to the terms of the trade.

A system that meets the criteria of Rule 3b-16(a), and is not excluded under Rule 3b-16(b), must register as a national securities exchange pursuant to Sections 5 and 6 of the Exchange Act or operate pursuant to an appropriate exemption. One frequently used exemption is for alternative trading systems ("ATS"). Rule 3a1-1(a)(2) exempts from the definition of "exchange" under Section 3(a)(1) an ATS that complies with Regulation ATS, which includes, among other things, the requirement to register as a broker-dealer and file a Form ATS with the Commission to provide notice of the ATS's operations. Therefore, an ATS that operates pursuant to the Rule 3a1-1(a)(2) exemption and complies with Regulation ATS would not be subject to the registration requirement of Section 5 of the Exchange Act.

C.7. On October 30, 2015, the SEC issued a release (2015-249) regarding crowd-funding and the regulatory consequences of conducting certain regulatory activities as part of a crowd-funding campaign. The SEC has adopted final rules to permit companies to offer and sell securities through crowdfunding. Title III of the Jumpstart Our Business Startups (JOBS) Act[20] created a federal exemption under the securities laws so that this type of funding method can be used to offer and sell securities to the general public. Crowdfunding generally refers to the use of the Internet by small businesses to raise capital through limited investments from a large number of investors. Crowdfunding can only be made through an online platform operated by an intermediary (a registered broker-dealer or funding portal). Based upon the assumptions set forth herein, the sale of IHT Tokens does not constitute the sale of securities through crowdfunding.

C.8. Both the Securities Act of 1933 ("Securities Act") and the Securities Exchange Act of 1934 ("Exchange Act") contain definitions of a "security".

Section 2(a)(1) of the Securities Act of 1933 defines a security as:

> The term "security" means any note, stock, treasury stock, security future, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization

[20] 126 Stat. 306; Public Law 112-106-April 5, 2012

> certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

Section 3(a)(10) of Exchange Act of 1933 defines a security as:

> The term "security" means any note, stock, treasury stock, security future, security-based swap, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

The definitions are substantially similar and are not intended to be treated differently in application. It was the congressional intent that the definition of security be very broad to encompass all forms of investment instruments and contracts that may be used in the commercial world.

Notably, the statutory definition contains qualifying language—to wit, "unless the context otherwise requires" which requires a facts and circumstances analysis of the particular matter in question where such facts and circumstances reasonably raise questions as to whether a security is involved or intended in a particular transaction.

Under Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act, a security includes "an investment contract." *See* 15 U.S.C. §§ 77b-77c. An investment contract is an investment of money in a common enterprise with a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others. See *SEC v. Edwards*, 540 U.S. 389, 393 (2004); *SEC v. W.J. Howey Co.*, 328 U.S. 293, 301 (1946); *see also United Housing Found., Inc. v. Forman*, 421 U.S. 837, 852-53 (1975) (The "touchstone" of an investment contract "is the presence of an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others."). This definition embodies a "*flexible rather than a static principle*, one that is capable of adaptation to meet the countless and variable schemes devised by those who seek the use of the money of others on the promise of profits." *Howey*, 328 U.S. at 299 (emphasis added). The test "permits the fulfillment of the statutory purpose of compelling full and fair disclosure relative to the issuance of 'the many types of instruments that in our commercial world fall within the ordinary concept of a security.'" Id. In analyzing whether something is a security, "form should be disregarded for substance," *Tcherepnin v. Knight*, 389 U.S. 332, 336 (1967), "and the emphasis should be on economic realities underlying a transaction, and not on the name appended thereto." *United Housing Found.*, 421 U.S. at 849. Under the *Howey* Test, whether an investment instrument is a security requires a substance-over-form analysis. Clearly a "stock" or "bond" is a security, but an investment contract can take many different forms and its underlying character may not be as easily recognizable. The *Howey* Test defines an investment contract as follows:

> "... an investment contract for purposes of the Securities Act means a contract, transaction or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party.... Such a definition...permits the fulfillment of the statutory purpose of compelling full and fair disclosure relative to the issuance of the many types of instruments that in our commercial world fall within the ordinary concept of a security.... It embodies a flexible rather than a static principle, one that is capable of adaptation to meet the countless and variable schemes devised by those who seek the use of the money of others on the promise of profits."

SEC v. W.J. Howey Co., 328 U.S. 293, 301 (1946) The *Howey* case established a three-part test, with the third test often broken into two prongs. The SEC analyzed *Howey* in its Report discussed in C.9 below.

1. **An investment of money** – Although in *Howey* the term "money" was used, subsequent case law has expanded this concept to include any form of consideration with value. In determining whether an investment contract exists, the investment of "money" need not take the form of cash. See, e.g., *Uselton v. Comm. Lovelace Motor Freight, Inc.*, 940 F.2d 564, 574 (10th Cir. 1991) ("[I]n spite of Howey's reference to an 'investment of money,' it is well established that cash is not the only form of contribution or investment that will create an investment contract."). The Supreme Court has held that the first prong requires only "tangible and definable consideration in return for an interest that had substantially the characteristics of a security." *Teamsters v. Daniel*, 439 U.S. 551 (1979).

Participants in the Platform may use cryptocurrency to acquire IHT Tokens. Such investment is the type of contribution of value that can create an investment contract under *Howey. See SEC v. Shavers*, No. 4:13-CV-416, 2014 WL 4652121, at *1 (E.D. Tex. Sept. 18, 2014) (holding that an investment of Bitcoin, a virtual currency, meets the first prong of *Howey*); *Uselton*, 940 F.2d at 574 ("[T]he 'investment' may take the form of 'goods and services,' or some other 'exchange of value'.") (citations omitted).

Participants engaged in cryptocurrency-related activities must treat payments and other transactions made in cryptocurrency as if cash is exchanged from one party to another. With respect to the acquisition of IHT Tokens, a purchaser's exchange of other cryptocurrency for IHT Tokens will result in the conclusion that there is an "investment of money". The *Howey* factor of an investment of money is satisfied with respect to the sale of IHT Tokens.

2. **In a common enterprise** – The subsequent lower federal court cases are not consistent regarding the meaning of a "common enterprise." The majority of federal courts define a common enterprise as involving "horizontal commonality," which involves the pooling of money or assets from multiple investors whereby the investors

share in the profits and risk in some proportion. These lower federal court cases include the 1st, 2nd, 3rd, 4th, 6th, 7th and DC U.S. Circuit Courts of Appeal.

However, another group of federal courts define a common enterprise as involving "vertical commonality," which focuses on the relationship of the parties. These lower federal court cases include the 5th, 9th and 11th U.S. Courts of Appeal. The 8th U.S. Circuit Court of Appeal appears open to accepting vertical as well as horizontal commonality to satisfy the second prong of the *Howey* test. *Miller v. Central Chinchilla Group, Inc.*, 494 F.2d 414, 417-18 (8th Cir. 1974) The 10th Circuit does not limit its analysis to the concepts of horizontal and vertical commodity, but rather examines the economic reality of the transaction. *McGill v. American Land & Exploration Co.*, 776 F.2d 923 (10th Cir. 1985). In vertical commonality, the investor's profit or loss is subject to the efforts of the promoter putting together the deal, regardless of the existence or status of other investors. Vertical commonality can further be broken down into "broad vertical commonality" whereby the promoter's profits are not tied to the investor's profits and "narrow vertical commonality" whereby the promoter only profits if the investor profits.

There is no Supreme Court case involving the analysis of investment contracts fact situations in which it has adopted the terms and distinctions "broad vertical" or "narrow vertical commonality".

Under the language and standards of all the Supreme Court cases applying the *Howey* Test, the Supreme Court consistently looks to horizontal commonality. Nevertheless, whether one applies "broad horizontal commonality", "narrow vertical commonality", or "broad vertical commonality", this factor of the test is not satisfied as to the IHT Tokens. The purchasers of IHT Tokens and any profit which they may expect depends predominantly on how they use, develop, market, and otherwise incorporate the rights they have purchased to use the services and products created and owned by the Company.

Based upon the U.S. White Paper and confirmation from the Company, there is no common enterprise in which a participant has any right or expectation and rights to share in the Company's profits or subject themselves to any risk relating to IHT Tokens.

The participant's expectation and rights by the acquisition of IHT Tokens are limited to the benefits of the Platform, which incorporates smart contract technology and distributed accounting technology utilizing the intrinsic advantages of blockchain technology such as trustlessness, immutability, auto-transparency, co-supervision and traceability. The structure of the Platform and the means by which Asset Owners, Financial Institutions and Users participate, based upon the U.S. White Paper, do not evidence the existence of "a common enterprise". The Platform and the IHT Tokens provide the technical mechanism for Asset Owners and Financial Institutions to tokenize the assets by means of the ATO process in order to create the tokenized products. There is no common enterprise in which IHT Token holders have pooled their money or assets with an expectation of proportional participation in profits or risk associated with the Company's results of operations. IHT Token holders' rights or risk are directly related to the economic returns of the underlying assets involved in the transactions between the Asset Owners and Financial Institutions. The economic fortunes of the Asset Owners, Financial Institutions and Users bear no direct relationship to the success of the Company. The factor in this test is not satisfied.

3. **With an expectation of profits derived from the entrepreneurial or managerial efforts of others** – Profits can either be in the form of capital appreciation, cash return on investment or other earnings (including dividends or interest). Profits for purposes of the *Howey* Test refers particularly to a return to the investor and not necessarily the success of the enterprise as a whole.

The presence of this factor turns on a finding that the investor is motivated by a return on his investment. So for instance, in a later case, *United Housing Found., Inc. v. Forman*, 421 U.S. 837, at 849 (1975), the court found that sale of shares in a housing cooperative that were bundled with the cost of the apartment itself and used for common operating expenses and upkeep of the building, did not give rise to a securities transaction where the investors were attracted solely by the prospect of acquiring a place to live, and not by financial returns on their investments.

Asset Owners, Financial Institutions and Users of the Platform are not incentivized by an expectation of profit nor is there any entitlement to share in the Company's profits.

The Company has confirmed that it would not be making any payment of profits, dividends, or periodic payments of any form to the holders of IHT Tokens. IHT Tokens are means by which Asset Owners, Financial Institutions and Users may participate in the Platform. The Company's success has no bearing on IHT Tokens owned by Asset Owners, Financial Institutions and Users.

A subpart of the third prong of the test is whether there is a requirement that investors' profit expectations derive "solely" from the efforts of others. Many federal courts have relaxed this requirement by substituting such terms as "predominantly" or "undeniably significant" for the Supreme Court's "solely". These current courts include the 5th, 6th, 9th and 10th.

In the Supreme Court's own cases since *Howey*, opinions of both the majority and dissent continue to repeat the original phraseology of "solely". It has neither criticized it nor rejected the "solely" phrase and its application as part of the third prong. The SEC's Report discussed in C.9 adopted the term "undeniably significant" rather than "solely" in its analysis of *Howey* and its application to the DAO. The Report is clearly broader than *Howey* in its analysis of the *Howey* factor.

Asset Owners, Financial Institutions and Users have no expectation of a return on their investment in IHT Tokens. They will not receive any profit from the entrepreneurial or managerial efforts of the Company. There is no offer nor any right to share in the success of the Company. The U.S. White Paper does not indicate that an equity interest in the Company or the Platform is granted to the holder of IHT Tokens, which has been confirmed by the Company. IHT Token holders are not entitled to receive any distributions from the Company with respect to IHT Tokens. Further, the Platform will not constitute a separate entity. IHT Token holders are not entitled to vote or participate in the governance of the Company or Platform because they are not granted any equity interest in the Company or the Platform from the purchase of the IHT Token. The success or failure of the Company's management of its operations do not impact, negatively or positively, the value of the utility of the IHT Token nor the functions a participant uses in the Platform. The participant's economic returns are based solely on the results of the value of the assets and the profits generated by the assets which

have been tokenized. The White Paper clearly states that all asset transactions will be conducted under the asset's local fiat.

Participants in the Platform who purchase IHT Tokens are not investing in a common enterprise with any expectation to earn profits through that enterprise when they deliver cryptocurrency in exchange for IHT Tokens. "[P]rofits" include "dividends, other periodic payments, or the increased value of the investment." *SEC v. Edwards*, 540 U.S. 389 at 394 (2004). While the U.S. White Paper informs participants that the Company is a for-profit entity, there will be no exchange for a return on investment.

While the Company's success is dependent upon its founders and executives, the value of IHT Tokens to a participant in the Platform is unrelated to the success or failure of the Company through its entrepreneurial or managerial efforts. Rather, purchasers of IHT Tokens have an expectation of profitability or advantage in the real estate industry from their purchase based predominantly on their own use and development, including any potential for remarketing of the usage rights to the product or service that they have purchased in the form of IHT Tokens. As the Court stated in *Forman*, "When a purchaser is motivated by a desire to use or consume the item purchased... the securities laws do not apply." *Forman*, 421 U.S. at 852 – 853. The factor in this test is not satisfied.

C.9. On July 25, 2017, the SEC issued a Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 regarding an ICO of DAO Tokens (the "**DAO Report**")[21], addressing the issue of ICOs and the application of U.S. federal securities laws to the offer and sale of Decentralized Autonomous Operation (DAO) Tokens, including whether the DAO Tokens are securities. Due to virtual organizations increasingly using distributed ledger technology to offer and sell instruments, such as "Initial Coin Offerings" and "Token Sales", the SEC issued the DAO Report for public information that U.S. federal securities laws may apply to various activities including "Initial Coin Offerings" and "Token Sales". In the DAO Report, the SEC demonstrates the analysis it performed to have determined that the DAO Token is a security based upon longstanding legal principles under the Securities Act of 1933 and the Securities

[21] https://www.sec.gov/litigation/investreport/34-81207.pdf

Exchange Act of 1934. The facts in the Report are materially different from those relating to IHT Token Sale. The DAO was a for-profit entity which would sell DAO Tokens to investors and use the proceeds to fund "projects". The holders of DAO Tokens were entitled to share in the anticipated earnings from the projects as a return on their investment in DAO Token. In addition, DAO Token holders could monetize their investments in DAO Tokens by re-selling DAO Tokens in a number of web-based platforms which supported secondary trading in DAO Tokens. Based upon the assumptions set forth in the U.S. White Paper and the Company's representations to us, IHT Tokens and the sale thereof do not fall within the factual pattern of the DAO Report. IHT Token holders are not entitled to share in any Company earnings. IHT Token holders have no expectation of profits derived from the managerial efforts of others. There is no common enterprise. The Company does not support any secondary trading platform.

C.10. IHT is not pooling the consideration paid for IHT Tokens to fund projects with respect to which IHT Token holders may share in the profits. The Company is not funding any projects to produce or return of IHT Token holders "investment". The IHT Tokens are not akin to buying shares in the Company with any expectation of receiving dividends. Lastly, the holder of IHT Tokens has no voting or ownership rights as did DAO Token holders who had the right to vote on projects which were to be funded.

C.11. In a December 11, 2017, Administrative Proceeding, *In the Matter of Munchee, Inc.* (the Order), the SEC shut down an ICO (initial coin offering) by its cease and desist Order. The Order underscores the need to be compliant with the Securities Act of 1933 and the Securities Exchange Act of 1934. Munchee intended to sell blockchain-based digital tokens or coins (MUNs) in order to raise $15 million to improve its application. Munchee, Inc. is a California business that created an iPhone application to allow users to post photographs and reviews of restaurant meals. The MUNs would be integrated into the application and used for a variety of transactions, including buying advertisements, writing reviews and selling food. Munchee, among other representations, in its White Paper, characterized MUNs as "utility tokens" and not securities, because the tokens would be used in the iPhone application that it was developing. The SEC disagreed based upon *United Housing Found., Inc. v. Forman*, 421 U.S. 837, at 849 (1975) which held that the determination of a security requires an

assessment of "the economic realities underlying a transaction". The SEC acknowledged that the tokens were intended to be used in the Munchee application and to buy goods and services in the future. Notwithstanding the MUNs being labelled as a "utility token", the SEC focused on how Munchee created an expectation in its ICO that the value of the MUNs would rise due to the efforts of the Company in developing its application (managing its "ecosystem") and how investors could expect to realize a profit by selling MUNs through a liquid secondary market. These features align with the core elements of the *Howey* test: namely, "the presence of an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others." The IHT Token value will not be affected by the management of the Company. The IHT Token holder does not rely upon the Company's expertise and is not investing in the Company. The SEC's cease and desist order is based in part on its finding that the facts in Munchee supported its determination that Muns were security tokens, and therefore, required to be registered. Consequently, in order to be traded on a secondary market, Muns must satisfy the federal securities laws regarding registration. IHT Tokens, as "utility" tokens, are not subject to the registration requirements under federal securities laws, and therefore, may be traded on the secondary market. The Company has also confirmed that it will not have unilateral control of the value of the IHT Token. For example, the Company cannot "burn" the token and be permitted to control the price of the token. The White Paper does state and the Company has confirmed that it does not have plans to "burn" IHT Tokens in the future.

C.12. The Munchee Order addresses the distinction between a "utility token" and a "security token". While the Order strikes at the heart of the distinction, in order for the token to substantively be a utility token, it must be such at the time of its sale. The token cannot be sold prior to the point that the ecosystem goes "live" and becomes useful for its consumptive purpose. The mere characterization of the token as a "utility token" will not be legally effective to not be subject to the registration requirements under the Securities Act in ICO offerings unless it is substantively a "utility token" at the point in time when it is issued to a holder. The Munchee Order stresses that immediately upon completion of the Token Sale, there must be a functional utility. The Company must

ensure that at the time of the sale of the IHT Token in the United States, that the Platform must be "live" and ready for its consumptive and practical purposes.

C.13. Based on the analysis above, stock (i) normally originates from a company as part of its stock capital, which is a representation of ownership of the company, (ii) entitles the owner to profits or dividends and (iii) gives them rights of management and the transfer of the stock is regulated by a legally binding instrument which sets out the mutual covenants between the holder of the stock and the company. The key characteristic of the IHT Tokens is that it serves as the medium of exchange for the products and services offered on the Platform. It has none of the enumerated characteristics of "stock".

C.14. Another term included within the definition of a security under Section 2.1a of the Securities Act of 1933 is a "debenture", which is defined as an unsecured corporate bond, which does not have a certain line of income or piece of property or equipment to guarantee repayment of principal upon the bond's maturity. If the instrument creates an acknowledgment of a debt by a company, it is likely to be construed as a debenture. It is not necessary for an instrument to be expressly described as a debenture, and the use of the term debenture in the instrument is not conclusive evidence of the instrument being a debenture. The key element of a debenture is that there should be an undertaking of some sort of debt by a company. As BTC, ETH and NEO would be exchanged for IHT Tokens during the Token Sale there is no obligation of repayment to the participant (in the form of any cryptocurrency) on the part of the Company, we consider that there is insufficient basis to argue that the IHT Tokens possess an acknowledgement of debt. Based on the lack of a debt element, IHT Tokens should not be classified as a debenture.

C.15. The other instruments in Section 2.1a of the Securities Act of 1933 are security futures, bonds and notes. We note that these instruments contain the characteristics of both stock and debt. Based on our analysis of stock and debentures above, IHTs should not be regarded as a security future, bond or note.

C.16. Based on the information and explanations provided to us and our analysis above, we are of the view that the Token Sale should not be considered as a (i) security as defined under the Securities Act of 1933 and the Securities Exchange Act of 1934, or (ii) an equity crowd-funding platform as far as the IHT Tokens are not classified as

"securities" for the purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934.

C.17. The SEC regulates various kinds of financial products as discussed above. The other major financial product that is regulated by the Commodities Futures Trading Commission (CFTC) but not addressed in great depth in this Opinion are futures. The CFTC defines a futures contract as an agreement where one party agrees to deliver at a future time an agreed commodity or quantity at an agreed price or a contract to make an adjustment between a future time and such adjustment is made in accordance with the rules of the CFTC. Thus a futures contract should be made on a futures market. The IHT Tokens should not be considered as a futures contract as it does not seem to conform to the rules and conventions of the futures market, as the IHT Tokens are not a representation of a contract to deliver a commodity in any form in the future time. The IHT Tokens serve as a mechanism of the technical Platform for Asset Owners and Financial Institutions to participate in the ATO Process, *i.e.* create the tokenized products for the participants to use as a medium of exchange for services and products. Therefore, they only constitute a medium of value exchange within the Platform ecosystem.

C.18. On March 7, 2018, the SEC's Division of Enforcement and Trading and Markets issued Statement on Potentially Unlawful Online Platforms for Trading Digital Assets (Public Statement).[22] The Public Statement states that if "a platform offers trading of digital assets that are securities and operates as an 'exchange', as defined by the federal securities laws, then the platform must register with the SEC as a national securities exchange or be exempt from registration". A platform which brings buyers and sellers together in one venue and offers access to automated systems which display priced orders, execute trades, and provide transaction data will be deemed an exchange under federal securities laws. The Public Statement warns investors that the protections offered by the federal securities laws and SEC oversight of digital assets that are securities can only be assured if the investor uses a platform or entity registered with the SEC, such as national securities exchange, alternative trading system ("ATS") or

[22] https://www.sec.gov/news/public-statement/enforcement-tm-statement-potentially-unlawful 3/7/18

broker-dealer. The Company has represented that it has not and does not provide or promote any online trading platform for the purchase and sale of IHT Tokens.

C.19. A person who commits an offense in contravention of the Securities Act of 1933 and Securities Exchange Act of 1934 may be liable for civil fines, temporary and permanent injunctions, disgorgement of ill-gotten gains plus interest and penalties and bars against serving as officers or directors in public companies or offering digital securities in the future.

C.20. The carrying on of unauthorized token sales through trading platforms activities also breaches the regulations on the conduct of regulated activities. The federal securities laws provide a wide array of remedies, including criminal and civil actions brought by the U.S. Department of Justice and Securities and Exchange Commission as well as private actions. Based on our analysis above if the IHT Tokens are not classified as "securities", it is unlikely that the SEC can present sufficient arguments that the Company is carrying on any regulated activities that involve securities or futures.

C.21. Based on our discussions with the Company and our analysis of the U.S. White Paper and other relevant facts, the SEC may take the view that the Token Sale constitutes an "offer, advertisement or invitation for an offer to acquire, dispose or subscribe" under the Securities Act and Exchange Act given that the IHT Tokens will be made available to the public who can in turn participate in the Token Sale via the Website. In such circumstances, the SEC may be compelled to investigate the proposed Token Sale for any alleged breaches of securities laws. As discussed in this Opinion, IHT Tokens do not fall under the definition of securities. Notwithstanding this, the virtual organizations' token sales are new paradigms, and the SEC has begun to issue reports, such as the DAO Report, in its application of existing law created before these new paradigms existed. We encourage that you maintain regular research of SEC releases and public statements to provide updates on the Token Sale intended for the United States as well as the development of the Platform with a view to avoiding potential breaches of the U.S. securities laws, rules and regulations.

C.22. Based on the analysis on the relevant securities regulations in the United States above, if the SEC cannot establish sufficient arguments that the IHT Tokens are securities, this does not mean that the IHT Tokens will be exempt from any legal oversight. The

Company will need to consider legal and regulatory issues in other areas of the law. If the Platform does collect data from Asset Owners, Financial Institutions and Users who wish to use the services of the Platform, there will be data protection issues under state laws. There are states which have enacted privacy laws applicable to operators of commercial web or online services that collect personal information on its residents. For example, California enacted the California Online Privacy Protection Act (CalOPPA) of 2003[23] which requires such operators to conspicuously post a privacy policy on the site and to comply with its policy. However, such analysis would go beyond the scope of this opinion. Should any further analysis be required on the applicability of the general commercial laws and other areas of the law we would be happy to address such questions in a separate engagement. The Company should ensure that it will continue to comply with applicable laws and regulations in the relevant jurisdictions in which the Token Sale will be marketed, promoted, advertised and/or launched, including but not limited to the United States.

C.23. The State of Wyoming took the initiative to enact new legislation in March 2018 to encourage business growth in that state. The new law declares utility tokens as not a security if it has a primary "consumptive" purpose, as opposed to an investment purpose, and if it satisfies the criteria specifically set forth in the legislation. Notwithstanding, the Company must consider federal law and its application as discussed in this letter.

D. Conclusion

D.1. On the basis of our analysis of the U.S. White Paper and the Company's oral confirmation regarding our understanding thereof, we believe that not all the features and characteristics associated with "securities" including but limited to shares, stocks or debentures are present in the context of the IHT Token Sale.

D.2. On the totality of the above facts and our analysis of the applicable rules of law, we consider that the IHT Tokens do not constitute "securities" under the Securities Act of 1933 or the Securities Exchange Act of 1934. For the reasons and considerations set out in our analysis in this Opinion, we also consider that the IHT Tokens should not be regarded as a type of investment contract as the IHT Token does not satisfy all the

[23] Cal.Bus. &Prof.Code §§ 22575-22579 (2004)

requirements under the definition in the Securities Act of 1933 or the Securities Exchange Act of 1934.

D.3. Notwithstanding the analysis set forth herein, given the fluid legal environment in cryptocurrency and ICO offerings, the SEC could initiate proceedings to address the Company's compliance with the Securities Act of 1933 and the Security Exchange Act of 1934 if it deems IHT Tokens to not be a "utility" token. In order to avoid any adverse action by the SEC, the Company may wish to consider conducting an ICO pursuant to Rule 506(c) of Regulation D and Regulation A+ under the Securities Act. Both offer the ability to engage in broad public solicitations of investors. There are, however, important differences that will make one or the other more suitable for a particular offering. Any further analysis of these two approaches is beyond the scope of this Opinion.

D.4. This Opinion is based on the assumptions in the attached "SCHEDULE: DISCLAIMERS", which is incorporated herein and made a part hereof.

D.5. This Opinion is addressed solely to the board of directors of the Company and the Company's benefit in relation to the Token Sale. This Opinion shall not be relied on by any other party other than the board of directors and the content of this Opinion shall remain strictly confidential. Except with our prior written consent, this Opinion shall not be (a) transmitted or disclosed to or used or relied upon by any other person or used or relied upon by you for any other purpose; and (b) filed with any governmental agency or authority or quoted in any public document unless required by any relevant law, regulation or requested by a governmental authority.

Very truly yours,
Davis & Kennedy, P.A.

By: _____
Bradley J. Davis, Esquire

SCHEDULE

DISCLAIMERS

Governing law

This Opinion is confined solely to matters of the Federal laws of United States as at the date of this Opinion (but not the regulatory development thereafter). Accordingly, we express no opinion with regard to any system other than United States laws as currently applied by the United Stated Federal Courts.

Other jurisdictions

For the purposes of this Opinion, we have made no independent investigation into the laws of any other jurisdiction. We express no opinion, and you should not infer any opinion, in respect of any other system of law. In particular, we express no opinion on the laws of the Hong Kong or the People's Republic of China.

Evolving laws and regulation paradigms

Cryptocurrencies and blockchain technologies are new paradigms. We have not made and will not make any speculation or prediction on how the SEC may ultimately apply or interpret existing securities laws and regulations of the United States to the new paradigms. We do not make any expression that new laws and regulations in the United States may be created to address the new paradigms, including those relating to IHTs platform.

Documents

For the purpose of giving this Opinion, we have only examined copies of the U.S. White Paper provided to us by the Company. We have not been provided with or reviewed any other documents in relation to IHT.

Assumptions

In considering the U.S. White Paper and in rendering this Opinion, based upon all inquiry and the Company's oral confirmation, we assumed:

(a) all the information, including the U.S. White Paper provided by you or any of your staff are true, complete, accurate and not misleading;

(b) that no substantial or material amendments (manuscript or otherwise) have been or will be made to the U.S. White Paper;

(c) that the Company's actions and operations shall be consistent with the U.S. White Paper, the Company's representations and federal law;

(d) that each participant to the Token Sale has the capacity, power and authority to execute, deliver and perform his/her/its respective obligations under the Token Sale;

(e) that there is no bad faith, or intention to use fraud, undue influence, coercion or duress on the part of the Company or any party to the Token Sale, or their respective owners, directors, employees or agents;

(f) that there is no law of any jurisdiction outside the United States which renders the execution, delivery or performance of the U.S. White Paper or the Token Sale illegal or ineffective and that, insofar as any obligation under any of the U.S. White Paper is performed in, or is otherwise subject to, any jurisdiction other than the United States, its performance will not be illegal or ineffective by virtue of the law of that jurisdiction and that none of the opinions expressed in this Opinion will otherwise be affected by any laws (including those relating to public policy) of any jurisdiction outside the United States;

(g) that we have not and are not required to give any financial or tax advice regarding any aspect of the Token Sale;

(h) that at the time of offering the Token Sale in the United States that IHT shall already have a functional utility immediately upon the completion of such Token Sale;

(i) that the Company will not enter into a repurchase agreement of any kind or enter into any agreement, arrangement or scheme with the intent and effect of manipulating or attempting to manipulate the price of the token on a secondary market, including "burning" IHT tokens;

(j) that IHT is not marketed as an investment, that is, the Company has confirmed that at the time of the Token Sale in the United States that IHT Token will be sold to the initial holder for a consumptive purpose and NOT as an investment contract;

(k) that the Company will not pay "profits" from the Company to any purchaser of the IHT Tokens from the Token Sale;

(l) that IHT is exchangeable or provided for purposes of the buyer receiving goods, services, or content, including rights of access to goods, services or content, i.e. IHTs Tokens purpose is a 'consumptive' purpose;

(m) that the consumptive purpose is available at the time of the sale and the buyer can use IHT Tokens at the time of the sale for the consumptive purpose; and

(n) that the Company takes precautions to prevent buyers of IHTs from purchasing IHTs as a financial investment, including having disclaimers in the Company's contracts and websites.

EXHIBIT A

U.S. WHITE PAPER