

Taeyul Law Firm

Consulting client : HanIdentityKorea Co., Ltd.

representative lawyer

From: Taeyul Law Firm (Representative Attorney Kim Do-hoon)

Submission Date: April 5, 2023

Title: Legal Review Opinion on the Token Character of HanChain (HAN)

After conducting a legal review of your legal consultation request, Attorney Kim Do-hoon of Taeyul Law Firm hereby submits the following legal opinion:

1. Scope of Legal Consultation

This Legal Opinion sets forth the legal review of whether HanChain, a token issued based on blockchain technology, constitutes a utility token or a security token.

2. Classification of Tokens

- 1) Tokens can be broadly classified into three categories: payment, securities (security), and utility tokens.
- 2) Payment tokens are virtual assets issued for circulation or exchange. Bitcoin is a prime example of a payment token. Securities tokens (also known as security tokens) were recently unified as "STO (Security Token Offering)" in the context of capital markets law and the Electronic Securities Act. In the United States, the Securities and Exchange Commission (SEC) uses the Howey Test to determine whether a particular virtual asset qualifies as a security token.

Under domestic law, the applicability of STOs depends on whether they qualify as

investment contract securities. Investment contract securities refer to the indication of contractual rights in which a specific investor invests money, etc. in a common enterprise between that investor and another person (including other investors) and mainly attributes gains and losses as a result of the common enterprise activities by others.

The concept of investment contract securities is a new one introduced under the Capital Markets and Financial Investment Services Act. It largely incorporates the so-called Howey standard, which was developed in US case law.

The Howey Test is based on four criteria: ① Whether the investor has invested money to purchase the token ② Whether the investor had the expectation of profit ③ Whether the invested money is attributed to the company ④ Whether the token's profits are derived from the efforts of third parties within the company

A utility token is a token that can be used as a substitute for currency in projects or decentralized applications (Dapps) promoted on the corresponding blockchain platform.

Utility tokens can be said to represent access rights to products or services.

3. Characteristics and Usage Status of HanChain

- 1) Customers first purchase items from the shopping mall and receive Shopping Points (SP) as a benefit. When customers use the SP they received as a benefit to purchase other products, they receive a discount on the product price at a certain rate and are additionally awarded HanChain with an equivalent value to the discount amount. Customers can then use the HanChain they receive as collateral to receive PayKhan(PKN) equivalent to 20% of the value of the HanChain.
- 2) PayKhan(PKN) received in this way can be used as a stable currency like cash within the decentralized ecosystem.

The ecosystem refers to the currently operating shopping malls, advertising platforms, video platforms, and music platforms. In these platforms, members can use PayKhan(PKN) at a fixed price to purchase products, music services, and more.

- 3) In other words, users can use the value-stable PayKhan (PKN) issued based on HanChain, a collateralized token, to purchase tangible and intangible products and

services. HanChain and PayKhan (PKN) exhibit the characteristics of typical utility tokens that serve as a substitute for currency and provide access rights to products or services within the blockchain platform.

4. Review of Whether HanChain Corresponds to STO through the Characteristics of Investment Contract Securities

Article 4(6) of the Capital Market Act defines investment contract securities as follows:

"Investment contract securities" refers to a right evidenced by a contract that a specific investor invests money or other assets in the common enterprise between the investor and another person (including another investor) (hereinafter the same shall apply in this paragraph) and receives profits and losses mainly according to the results of the common enterprise activities by the others.

To consider HanChain as an investment contract security under the Capital Market Act, a "common enterprise relationship" must be recognized between the HanChain issuer and the purchaser, which is one of the requirements for investment contract securities under the Capital Market Act. However, the HanChain issuer and HanChain holders do not have a "common enterprise relationship," so it is difficult to view HanChain as an investment contract security.

Looking at the process of acquiring HanChain, holders go through a process of purchasing tangible or intangible products or services and acquiring HanChain by utilizing shopping points received as benefits.

This can be interpreted as applying the concept of rewards that general commercial companies or other companies provide points or mileage to members and use them in their own ecosystem, and in your case, using blockchain technology as a token called HanChain.

Looking at domestic regulations, the Financial Services Commission, the competent ministry, has never interpreted tokens as "investment contract securities" since the enactment of the Integrated Capital Market Act in 2006. Therefore, HanChain holders cannot have any predictability that HanChain is an investment contract security.

Additionally, in 2017, the Virtual Currency Information Joint Task Force (including the Financial Services Commission) announced its stance that cryptocurrencies are "not financial instruments," effectively denying the security nature of cryptocurrencies.

Therefore, it is unreasonable to consider Hanchain as an investment contract security subject to STO application.

5. Review of whether it is applicable to STO through the Howey Test

To determine whether HanChain is a security, the Howey test can be applied. Looking at the structure of HanChain based on these criteria, the following is observed:

1) Whether money was invested to acquire the token.

There is no way to acquire Hanchain by investing money on the Hanchain platform.

Purchasers first purchase goods on our shopping mall and receive shopping points (SP) as a benefit. Using the SP received as a benefit, purchasers receive a discount on the price of certain products when purchasing other products. For the amount of the discount, purchasers additionally receive Hanchain of equivalent value.

In other words, purchasers receive Hanchain in addition to the discount, which is linked to the SP provided as a reward for purchasing products. This structure is different from ICOs, which issue tokens in exchange for money to raise funds in the early stages of the project, or other tokens that are traded as investment vehicles with money.

2) Whether the purpose of holding the token is to obtain profits.

The primary purpose of holding HanChain is to maximize its usability by acquiring ownership rather than expecting profit.

HanChain holders can issue PayKhan(PKN), currently up to 20% of the value of their HanChain holdings, using HanChain as collateral. This PayKhan(PKN) can be used to purchase products and services on the shopping mall

The shopping mall offers over 50,000 types of products, including intangible goods such as music and services.

In other words, the primary purpose of holding HanChain is not to expect profits but

to utilize the issued PayKhan(PKN) in practical scenarios by acquiring ownership of HanChain.

3) Whether the invested money exists in the company

As explained above, looking at the HanChain holding process, it is not a form of investment in which tokens are sold to raise initial business funds, such as ICOs, or tokens are sold for money on a regular basis.

HanChain is received as a reward through the product purchase process.

The product sales proceeds are allocated to the company, but the company pays the product supply costs to the manufacturer or supplier according to the normal product distribution structure.

4) Whether the profits of HanChain holders come from the efforts of third parties such as company employees

Profits generated from the efforts of HanChain holders and company employees are not distributed to HanChain holders

In other words, the profits of HanChain holders are generated when they voluntarily participate in trading based on the price of HanChain formed on the exchange.

6. Conclusion

HanChain is a token that is used as a collateralized and stable value on a decentralized platform. It is a token with the characteristic of being issued and operated through a mechanism using blockchain technology for the efficient and stable operation of the platform. When judged by the above investment contract securities and Howey Test criteria, it can be seen that HanChain is not a security token (STO).

Utility tokens refer to virtual assets used within applications or services based on blockchain technology. HanChain is a blockchain-based token created based on Ethereum's ERC20 protocol. It is used as a point system in shopping malls, advertising, and music platforms through PayKhan(PKN), a value-stable token backed by HanChain.

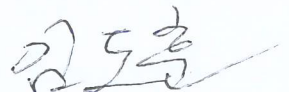
In other words, it is a virtual asset used as a basis for operating the ecosystem and

efficiently expanding and maintaining the ecosystem by providing points, including rewards, to members.

In conclusion, Hanchain is a utility token based on usability, rather than a token security (STO) whose basic purpose is investment or profit.

Taeyul Law Firm

Representative Attorney Kim Do-hoon

A handwritten signature in black ink, appearing to read '김도훈' (Kim Do-hoon), with a long horizontal stroke extending to the right.