**WINTAAI HOLDINGS LTD.**
110 Sheppard Ave. East
Suite 301 Box 18
Toronto ON, M2N 6Y8, Canada

August 30, 2019

**Second Quarter 2019 Update**

Dear Shareholders,

Sometime in December 2018, I asked Mike Dileo, CEO of Stonetrust Commercial Insurance Company (Stonetrust), to see whether management, employees and directors of Stonetrust would be interested in buying shares of Stonetrust at book value. I am happy to announce that management, employees and directors did indeed participate in buying shares of Stonetrust. This showed that they believed in their own company as they purchased shares with their own money. It was not given to them as a freebie.

In June, we raised over $9.1 million CAD from Canadian investors. Initially, the price was Stonetrust's GAAP book value of March 31, 2019 plus a premium of 10%. When translated into Wintaai Holdings Ltd. (Wintaai)'s equivalent value, it became a 13% premium to book value. To simplify matters, I decided that the price should be equivalent to a 10% premium of Wintaai's adjusted book value. This translates to a 7% premium to Stonetrust's book value and it is a way better deal for new shareholders from the initial deal. To minimize costs, we also decided to raise the capital on our own without going through a third-party broker. If we had hired investment bankers, they would have charged 7% of proceeds in investment banking fees (approximately $630,000 CAD). These fees were all saved for the benefit of the shareholders.

We are also planning to raise funds from American investors soon. We were unable to take investments from American investors back in June due to uncertainties relating to Wintaai's potential tax status as a Passive Foreign Investment Company (PFIC). Fortunately, in July the Internal Revenue Service (IRS) issued Proposed Regulation Section 1.1.297-5 that clarified the PFIC issue. Our lawyers have advised that under the new proposed regulations, Wintaai is currently not classified as a PFIC investment for U.S. taxpayers. Our lawyers are working on the subscription forms and once those are ready, American investors will be able to buy into Wintaai at a price equivalent to Wintaai's adjusted book value as of June 30, 2019, plus the same premium of 10%.

## A Word of Caution

Over the last three months, the adjusted book value per share[1] of Wintaai increased from $16.77 on March 31, 2019 to $17.44 on June 30, 2019, an increase of 4.0% (*see Wintaai Q2 2019 financial statement and share price calculations in the attached below*). Similarly, the Stonetrust book value also increased 2.5% from $97.8 million CAD on March 31, 2019 to $100.2 million CAD on June 30, 2019. In U.S. dollars, the Stonetrust book value increased from $73.3 million USD to $76.6 million USD, an increase of 4.5%. The difference in returns is because the Canadian dollar appreciated against the U.S. dollar, negatively affecting the book value.

Despite the positive financial performance, we understand insurance is a tough business in a highly regulated industry. The economics of most insurance companies will result in sub-par returns for investors. There is a silver lining though – we need to do two key things right to get a decent return on shareholders' equity.

[1] Adjusted for change in Stonetrust's net asset or book value.

1) Management must be completely disciplined in not chasing business. It is paramount that underwriting discipline be maintained. In other words, the combined ratio should not exceed 100%.

2) Equally important, on the investment side, we must be disciplined in not overpaying for businesses. In the case of Stonetrust, the investable assets to book value ratio is just over 2 to 1. If we can make a 5% return on investable assets, the return on book value would be over 10% pre-tax, a fairly reasonable return, provided the combined ratio is 100% or less. This is what we are counting on to get an adequate return for Wintaai.

**Reflection on Investments**

We have been investing for well over 30 years, and our history has shown that we tend to undervalue good companies. When our assessment showed that a potential investment was worth 100 cents, it was more accurately close to 150 cents, thus causing us to miss most of these opportunities. These “omissions”, though they are unseen mistakes are nevertheless as real as mistakes of commission. Going forward, our preference would be to invest in good operating companies where the returns from an investment comes from the increase in the intrinsic value of the company and the closing of the gap between the discounted purchase price to the full intrinsic value.

On the insurance front, we want to congratulate Mike Dileo and his team for doing a great job operationally at Stonetrust, despite some serious head winds and tough markets. Below, I’ve included an update from Mike himself.

Sincerely,

Francis Chou

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**Letter from the CEO of Stonetrust**

Entering the final month of the third quarter, we're focused on finishing the year strong and establishing a solid foundation for a strong beginning in 2020. Although achieving our premium goal continues to be very challenging, we're progressing through the third quarter still on target to exceed our goals for underwriting profitability and surplus growth.

Some key highlights are as follows (*see Q2 2019 GAAP financial statements of Stonetrust attached below, all currencies in USD*):

- New claims are lower than anticipated for the year. For the first time in many years, we're on track to receive less than 1,000 new claims reported this year
- Claim frequency, or the number of claims received per $100,000 of premium, is lower than last year at 2.0%
- Our second quarter calendar year Combined Ratio is 93.9%
- Our net underwriting profit is $1,338,942 as compared to $160,424 at this point last year
- Our net investment gain is $2,088,247
- Our overall net income is $2,503,735
- Our surplus increased to $76,576,081 from last year's surplus of $68,275,675

These are all very good numbers and better than we anticipated in every category listed.

As mentioned, our biggest challenge continues to be our top line goal for written premium. We are behind our target for new business premium by approximately $1.8 million and are projecting to finish the year about $1.5 million below our net earned premium goal of $46.6 million. Although we're on target for increased profitability, the size of our premium base is projected to shrink by 3% to 4% if current trends continue.

As we've frequently discussed, we're fighting through an extremely competitive market cycle that requires everyone's attention and focus. After meeting with the Underwriting and Marketing team this week, I'm confident that we will be able to make up a significant portion of our premium gap before the end of the year. We've also taken measures to add additional resources in underwriting and marketing and have already started to realize some gains in both areas.

In closing, I'm excited about the progress that we're making on this year's plan and the opportunities ahead of us as we approach the end of the year. Overall, we've improved our capital adequacy rating and continue to progress toward our goal for rating outlook improvement at our next evaluation with A.M. Best. Our current plans for profitability and additional market diversification are working and we will continue to work hard at finding ways to be successful in a hyper-competitive environment.

Sincerely,

Michael G. Dileo, CPCU
President and Chief Executive Officer
Stonetrust Commercial Insurance Company