WINTAAI HOLDINGS LTD.
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April 30, 2020

2019 WINTAAI HOLDINGS ANNUAL LETTER TO SHAREHOLDERS

Dear Shareholders,

We had an excellent year in 2019, both the investments and the insurance operations performed well.

Key Quarterly Figures

	Dec. 31, 2018	March 31, 2019	June 30, 2019	Sept. 30, 2019	Dec. 31, 2019	YoY % Change	Q4 % Change
Wintaai Adjusted Book Value per Share	$15.0	$16.8	$17.4	$18.0	$19.4	29.5%	7.6%
Stonetrust Book Value (*CAD in Millions*)	$90.2	$97.8	$100.2	$103.4	$110.1	22.0%	6.4%
Stonetrust Book Value (*USD in Millions*)	$66.1	$73.3	$76.6	$78.1	$84.7	28.1%	8.5%

In many respects it was a banner year for Stonetrust Commercial Insurance Company ("Stonetrust") and Wintaai Holdings Ltd. ("Wintaai"). During the fiscal year 2019, the adjusted book value per share of Wintaai increased from $15.0 on December 31, 2018 to $19.4 on December 31, 2019, an increase of 29.5% (see Wintaai 2019 annual financial statement and share price calculations in the attached below). Similarly, the Stonetrust book value also increased 22.0% from $90.2 million CAD on December 31, 2018 to $110.1 million CAD on December 31, 2019. In U.S. dollars, the Stonetrust book value increased from $66.1 million USD to $84.7 million USD, an increase of 28.1%. The difference in returns is because the Canadian dollar appreciated against the U.S. dollar, negatively affecting the book value. One key metric that is used to measure insurance operations is the combined ratio and Stonetrust came in at an excellent 89.1%.

This is all thanks to the CEO, Mike Dileo, and his Stonetrust team in Louisiana.

Little did we know that the COVID-19 pandemic was about to erupt around the world beginning in 2020. The outbreak of COVID-19 and its impacts on global equity markets and business operations around the world came as a surprise to us in early 2020. The current pandemic has overshadowed our performance in 2019 as the investments experienced significant volatility since then. Operationally, the business is running as usual given its status as an essential business.

In terms of finding investments, the global responses to COVID-19 have put a big wrench into how to evaluate a business. The companies are not worth much based on 2020 revenue and earnings projections. Valuations are further impacted by the various monetary and fiscal interventions by governments and central banks, including massive bailouts in the form of outright grants or loans with terms that are stringent to mild. It is further complicated by the fact that government actions have caused severe contractions in several industries and there is no way to ascertain whether it is going to be a V-shaped, W-shaped or L-shaped recovery with government bailout money cushioning some of the fallout. Every industry has been affected to some extent – some worse than others. The stock market reacted

accordingly. As one pundit opined: the stock market of 2020 is worse than a divorce – you lose 50% of your assets and you still have to quarantine with your spouse for 14 days.

Having said that, perhaps the safer way is to assess an industry is to think about what the industry will look like two years from now, as well as the likelihood of a company's earning power returning to 2019 levels. If we look at normalized earnings, plenty of companies look cheap at current prices. However, this view comes with a caveat – how much will the COVID-19 outbreak cost businesses. To make that assessment with a reasonable degree of accuracy, one will require assumptions as to when a business will restart, how much revenue it is going to generate then, and when will it return to the same revenue and profit streams as in 2019. More than likely, we expect revenue streams to come back sooner, while profitability may lag for several more quarters.

Capital Raise Update

In 2019, we raised over $12.4 million CAD from Canadian and U.S. investors in the first two rounds of equity financing. We closed another $3.1 million CAD in the third round of financing in February 2020. Under the private issuer exemption allowed by securities laws, we can have up to 50 security holders, excluding employees and former employees. Currently we have roughly 42 shareholders after the three rounds of financing, excluding employees and former employees. The terms for all three financings were the same as before: the purchase price was equivalent to a 10% premium on Wintaai's adjusted book value as of the latest quarter-end financials prior to issuance.

In total, we have raised about $15.6 million CAD without going through an investment banker. If we had hired investment bankers, they would have charged 7% of the proceeds in investment banking fees (approximately $1 million CAD). These fees were all saved for the benefit of the shareholders.

The proceeds will be used for working capital purposes, to pay down debt owed to the seller as they come due, as well as for potential acquisitions.

On January 1st, 2020, we paid $2 million USD to the seller as per the payment schedule of the purchase agreement. The purchase price of $70.3 million USD for the acquisition of Stonetrust was payable $40 million USD on closing, $15 million USD on 135 days after closing, and $2 million USD each on the first, second, and third anniversaries of the closing (contingent on adverse development of reserves) and the balance on the fourth anniversary date. Since we did not find any inadequacy in the Stonetrust reserves at year-end 2019 upon examination, the agreed amount of $2 million USD was paid in full as they came due.

A Word of Caution

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) 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.

Portfolio Commentary

Airlines – We believe the airlines will survive over the long-term, but it may take a year or two before revenues return to what they were in 2019. We believe the intrinsic values of airline stocks have been worsened by roughly 30%, but the stock prices have dived by more than 50%. Our holdings of Delta Airlines, Southwest Airlines and Spirit Airlines are among some of the best in the industry. If the airline industry does recover, we believe there would be a relatively quick recovery for the airline companies we hold, with their low-cost structures and strong balance sheets.

Nevertheless, there are still lots of uncertainties in evaluating airline stocks right now. One factor is the short-term and long-term impacts that the social distancing policies would have on the total capacity of airlines. This would translate into lower revenue and profitability given the high fixed costs per flight. Another big unknown is the amount of government bailout for airlines and the terms that come with it. Thus, we do not know the cost and the amount of equity dilution that shareholders may have to take on the chin. We live in a country with free enterprise, and the intrinsic value of companies should be dictated by economic fundamentals of the business in principal. However, here we are looking at Washington with our bowl in hand to determine what the business could be worth. It is just an asinine way to evaluate a business. Another way of looking at it is to push back what we thought the intrinsic value was going to be in 2023 by two or three years and then discount the value from there.

Google, Apple, Moodys and Pool – We believe the dent to intrinsic value is less than 5%. Likewise, the stock prices of these securities have not depreciated much since 2019.

Banks – In general, we do not think that the intrinsic values of the banks have depreciated much in the long-term. In the short-term, revenues and net interest margins may take a hit due to low interest rates (close to zero), and defaults on bad loans will likely increase under the current anemic economic conditions. However, we think the loose monetary policy of today with its excessive printing of money will benefit the banks in the long-term, since banks are always the first beneficiary of easy money. Having endured the annual stress tests, banks are also in much better financial shape than they were during the Great Recession of 2008.

Fiat Chrysler Automobiles (FCA) and Exor N.V. – Most likely the intrinsic values of the two companies have been impaired by at least 20%. There is some uncertainty as to how to value these businesses as they are "Special Situations", but we expect to have a clearer idea in a few more quarters. With regard to FCA, the controlling shareholders wanted to unlock value either by paying special dividends, buybacks of shares or through strategic merger and acquisition. Since December 2018, we have received US$2.70 in regular and special dividends, accounting for about 33% of our average cost base. We expect the regular and special dividend payments to continue once the COVID-19 crisis abates.

Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals) – The impact to intrinsic value is most probably less than 5% in the long-term. Bausch Health Companies Inc. develops, manufactures, and markets a range of pharmaceutical, medical device, and over-the-counter products primarily in the therapeutic areas of eye health, gastroenterology, and dermatology, with well-known products such as Bausch & Lomb and Salix. We don't believe the COVID-19 pandemic would have a serious impact on its businesses.

Fixed Income Instruments – In December 2019, we had approximately $35 million in short term treasury bills instead of stocks or bonds. This is because we wanted to stay liquid and prepared in the event of a market downturn. When the COVID-19 outbreak hit in early 2020, our strong cash balance and liquidity came in handy. We were able to deploy at least half of that to fixed income instruments ranging from investment grade to below investment grade bonds. We looked at securities with sufficient margin of safety to recover the original prices paid, even in the event of a bankruptcy or restructuring. We also kept an eye on Washington and invested in companies where we believe the government is likely to provide support through relief funds. Most of the time, we limited the bond duration to less than 3 years since the bailout money would most likely be used to pay off the bonds as they mature. Many of the recent investments have worked out well so far, with some of the bond prices up as much as 40% since our purchase. We are looking to sell some of these bonds now as they are no longer highly undervalued.

Oil & Gas Sector – In early 2020, we were able to deploy a significant amount of the cash into the bonds of oil and gas companies, whose prices have been severely beaten down due to the recent oil price war between Russia and Saudi Arabia. The price of natural gas for a long time had been priced close to or below the cost of production and it had stayed low relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices, but for the last few years the ratio between prices had gone up to as high as 50 to 1.

In practical terms, there are always frictional costs and time needed to convert from oil to natural gas. In a free enterprise society, businesses are always adapting and they are looking for the most cost-effective way of running a business. This includes individuals too. We have seen how solar energy and electric cars have replaced a portion of fossil fuels for their energy consumption. In time, if the ratio of oil to natural gas prices is in excess of 10 to 1, there will be new efforts to use more natural gas at the expense of oil and the historical equilibrium will be restored. The historical ratio of 6 to 1 can be stretched to maybe 10 to 1, but 50 to 1 is asking too much.

Lo and behold, most investors felt that the ratio of 6 to 1 was totally broken. There was a new paradigm of 30 to 1. But on April 20th the price of oil fell into negative territory. You had to pay someone to take the barrel of oil from you. Unbelievable! The ratio had dropped below 6:1 to 0:1, albeit temporarily.

The crash of the oil sector has made us quite bullish on the natural gas sector. So much irresponsible money had been poured into the oil sector which indirectly impacted the natural gas industry. When you drill for oil, the by-product you get is natural gas. The excess production of shale gas through fracking is one of the main reasons why natural gas prices have stayed at such a low price for so many years. With capital withdrawn from the oil industry, distressed oil and gas producers will cease production and the excessive supply will shrink over time.

On the demand side, another market that is opening up for natural gas is Asia, which could be an important export market of U.S. natural gas in the form of liquefied natural gas (LNG). The price of natural gas can compete directly with the price of coal and natural gas has much lower environmental impacts compared to coal. China, S. Korea, Japan and Taiwan are shuttering coal plants and replacing them with natural gas plants. In time, we believe LNG prices will rise as demand for it rises exponentially.

A Good Feel Story about COVID-19

COVID-19 reminds me of a story going back to the 1919 Stanley Cup Finals between the Montreal Canadiens and the Seattle Metropolitans. Six months before the finals, the Spanish flu had been raging across North America and Europe. At the time, the finals were a best-of-five series and after five games, each team had won two games and one game was tied. To decide the winner, a sixth game had to be played. The problem was that four of the top hockey players for the Canadiens were stricken with the Spanish flu and couldn't play. The Canadiens did not have enough players to field a team, so they decided to forfeit the sixth game to the Metropolitans. But instead of accepting victory, Seattle rejected the noble gesture, saying they could not take the Stanley Cup because of the circumstances affecting the Montreal Canadiens. That is what we call "sportsmanship" of the highest order. Thirty years later, the NHL declared both Montreal and Seattle as the joint winners of the 1919 Stanley Cup.

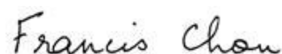
In a similar vein, you can see that with COVID-19, health care workers, citizens, pharmaceutical companies and other constituents are working together to get the disease under control, with no one acting as the big hero or taking undue credit.

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 come 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. For further discussion on the operational side of the business, please refer to CEO Mike Dileo's letter included below.

Sincerely,



Francis Chou
Chief Executive Officer
Wintaai Holdings Ltd.

April 28, 2020

Annual Letter to Wintaai Shareholders from Stonetrust President Michael G. Dileo

I am extremely pleased to report that 2019 was the most profitable year in Stonetrust's 27-year history, and Stonetrust was already off to a tremendous start in 2020 prior to the onset of the COVID – 19 pandemic.

In the last year, significant progress was made towards our goal of being evaluated as an "A" rated company by A. M. Best, and we have established strong momentum in our overall operations. The timing of this gain in momentum will serve us well as we manage the new challenges presented by the pandemic and work toward another successful year in 2020.

At year-end 2019, written premium was $45.1 million with coverage offered in eight states to more than 4,300 policyholders. Last year more than $9 million in new business premium was written with almost $3 million in premium written in our newest states - Missouri, Tennessee, and Nebraska. Our underwriting combined ratio was 89.1% with overall net income of $6.4 million and ending surplus of $84.4 million, which represented a total increase in surplus of more than $16 million at year-end as compared to the prior year. We finished the year with net investment income of $3.7 million and total net admitted assets for the company of $188.5 million.

Substantial progress in management and staff development was also made in 2019. Our goal is to establish a company culture where our staff and management handle their assigned responsibilities like entrepreneurs and demonstrate a deep-rooted investment in the success of the company. Borrowing from the Jim Collins book, "Good to Great", our goal is to build a culture of discipline with "Level 5" leadership. Our intellectual capital was also vastly improved in the last year through strategic hiring, as well as a management training initiative. Three new management positions were added to address critical needs in crucial areas - Human Resources Director, Marketing Director and Compliance and Quality Review Director. I am pleased to report that we have a much stronger and cohesive leadership team in 2020 - one that has embraced the challenge of taking the company to the next level.

The significant improvements that we have made in our operations and in our overall capital structure have established the strong foundation required for us to compete in a very competitive market cycle. We are also planning to introduce several new initiatives in 2020 that will further diversify our revenue stream and strengthen our competitive profile. In June, we will launch a new marketing campaign that includes new print ads and digital media strategically targeted for key areas in each of our states. This campaign promises to refine our company brand and elevate our profile in all markets. In August, we will complete a comprehensive technology upgrade of our core policy administration and claims systems that will increase automation and operational efficiency. This initiative will greatly enhance and highlight our "ease of doing business" reputation. We will also launch our new preferred pricing tier company, Stonetrust Premier, and begin writing business in our 9th and 10th states, Alabama and Kansas.

This past December we hosted a very successful meeting with A M Best in our Baton Rouge office. The analysts from Best were extremely impressed with our operational improvements and overall performance consistency. As of this writing, our company evaluation is scheduled to be presented to the A M Best committee within the next week. Our anticipation is that we will receive an overall positive evaluation that potentially includes an upgrade from Stable to Positive on our financial outlook.

Regarding the impact of the COVID-19 Pandemic, we have received a minimal number of reported claims - primarily from first responders and medical personnel. Since COVID-19 is considered an occupational disease under workers' compensation statutory guidelines, our position is these claims will *not* automatically be considered compensable or payable under our policy. Each of these claims will be investigated individually and decisions regarding compensability will be made on a claim by claim basis. We are also closely monitoring recent government mandates and proposed legislation in numerous states that allow for a presumption of coverage for certain workers under workers' compensation policies. We anticipate that some of these mandates will lead to claim litigation and could ultimately result in an increase in overall claim payments to resolve the claims through settlements; however, some of this increased claim exposure will be offset by a decrease in claim frequency resulting from the anticipated business shutdowns and closures caused by the pandemic.

In closing, I am pleased to report that the company is performing above benchmark levels in a very challenging market environment and is positioned very well for future success. We have received tremendous support and have benefitted greatly from the ownership by Francis Chou and Chou Investments, and we're extremely excited about our plan for future growth of the company. Even though 2020 has started with unprecedented challenges, we've made significant progress solidifying our overall capital structure and are well-positioned for additional growth and expansion as we continue to pursue our vision of being the "first choice" workers' compensation carrier in all of our markets.

Sincerely,

Michael G. Dileo, CPCU
President and Chief Executive Officer