

REPORT ON ORGANIZATION

OF THE

KENSINGTON INSURANCE COMPANY

AS OF

FEBRUARY 1, 2005

DATE OF REPORT

FEBRUARY 10, 2005

EXAMINER

FRANK P. SCHIRALDI

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 10, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22278 dated January 18, 2005 attached hereto, I have made an examination on organization of Kensington Insurance Company as of February 1, 2005, and submit the following report thereon.

Wherever the designations "the Company" or "Kensington" or "KIC" appear herein without qualification, they should be understood to indicate Kensington Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the office of the New Horizon Agency, an affiliate of the Company, located at 53 West 36th Street, New York, NY 10018.

1. SCOPE OF EXAMINATION

The examination comprised of a complete verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the Company's assets and liabilities. The records examined were the declaration of intention and charter, the by-laws, the certificate of incorporation, the corporate minutes, the stock register and the inter-company and custodial agreements entered into by the Company as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

Kensington Insurance Company was incorporated under the laws of the State of New York on December 12, 2003. The Department approved the Company's declaration of intention and charter on the same date. The Company's office is intended to be located in New York County, NY.

The Company's board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ching Tai Chiang Holmdel, NJ	Housewife
George Chiang New York, NY	Vice President, Pacific Concord Investment Corporation,
Wen Hui Chiang Holmdel, NJ	Self-employed
Lin-Wang Chiu-Shia Holmdel, NJ	Self-employed
I-Cheng Steve Hsu Holmdel, NJ	Telecommunications Consultant, Self-employed

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Izdebski Jackson, NJ	Vice President, John H. Izdebski, Inc. T/A Bouwer, Hansen & Izdebski Insurance
Richard Lai Bronx, NY	Associate Professor, St. Johns University
Chung-Kuan Lin East Brunswick, NJ	Vice President, C.K. Lin, Incorporated
Ken Ta Lin Middletown, NJ	President, Pesquera De Las Islas, C.A.
Ken Tu Liu Middletown, NJ	Executive Vice President, Dorcas and Kalam Company, Limited
Yitzhak Loria New York, NY	Real Estate Broker, Yitzhak Loria Management, L.L.C.
Brian B. Smith Middletown, NJ	Attorney/General Counsel, Pacific Concord Investment Corporation
Charles Widder East Brunswick, NJ	Consultant/Insurance and Reinsurance, Self-employed

As of February 1, 2005, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Wen Hui Chiang	Chairman
Joseph Davis	President
Brian B. Smith, Esquire	Secretary

Article VI of the Company's by-laws requires that the board of directors elect a chairman of the board, a president, one or more vice-presidents, a secretary and a treasurer. As of February 1, 2005, the board had not elected a treasurer or any vice-presidents. It is recommended that the board of directors elect the appropriate officers, as required by its by-laws.

3. CAPITALIZATION AND SUBSCRIPTION

KIC's authorized capital of \$1,000,000 consists of 800,000 shares of common stock at \$1.25 par value per share. On August 1, 2004, the Company issued 800,000 shares of its common stock to various private investors for a consideration of \$4,000,000, of which \$1,000,000 was allocated to common stock and \$3,000,000 was paid in and contributed surplus.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par and market value of \$600,000 and \$596,280, respectively, in a custodial account in the name of "the Superintendent of Insurance of the State of New York in trust for the security of the policyholders of Kensington Insurance Company, within the United States, its territories and possessions".

4. BALANCE SHEET

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of February 1, 2005 and as reported by the Company:

<u>Assets</u>	<u>Per Examination</u>	<u>Per Company</u>	<u>Surplus Increase (Decrease)</u>
Bonds	\$ 596,280	\$596,280	
Cash	3,146,351	3,146,351	
EDP equipment and software	0	21,675	\$(21,675)
Deferred tax asset	85,785	85,785	
Total admitted assets	<u>\$ 3,828,417</u>	<u>\$ 3,850,092</u>	<u>\$(21,675)</u>
 <u>Liabilities</u>			
Accounts payable	\$ <u>12,900</u>	\$ <u>12,900</u>	
Total liabilities	<u>\$ 12,900</u>	<u>\$ 12,900</u>	
 <u>Capital and Surplus</u>			
Common capital stock	\$ 1,000,000	\$ 1,000,000	
Gross paid in and contributed surplus	3,000,000	3,000,000	
Unassigned funds (Surplus)	<u>(184,483)</u>	<u>(162,808)</u>	<u>\$(21,675)</u>
Total surplus as regards policyholders	<u>\$ 3,815,517</u>	<u>\$3,837,192</u>	<u>\$(21,675)</u>
Total liabilities and surplus as regards policyholders	<u>\$3,828,417</u>	<u>\$3,850,092</u>	<u>\$(21,675)</u>

5. ELECTRONIC DATA PROCESSING EQUIPMENT

The Company reported an admitted asset for Electronic data processing equipment in the amount of \$21,675 in its February 2, 2005 balance sheet. This asset has been classified as a not-admitted asset in the financial statements set forth in this report.

Section 1301(a)(18) of the New York State Insurance Law provides that only electronic data processing equipment costing fifty thousand dollars or more can be reported as an admitted asset. Since the cost of this asset is less than \$50,000, the asset has been classified as a not admitted asset herein.

It is recommended that the Company comply with Section 1301(a)(18) and only admit electronic data processing equipment with a cost of \$50,000 or more.

6. CUSTODIAL AGREEMENT

The custodial agreement entered into between the Company and Great Eastern Bank is missing the following protective covenants as set forth in Part 1-General, Section IV.J-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners' Handbook:

- That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
- That during regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company;
- The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve

book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

- To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information;
- That the custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
- That the custodian shall secure and maintain insurance protection in an adequate amount.

Therefore, it is recommended that the Company amend the custodial agreement with Bank of New York to comply with the guidelines set forth in the NAIC Examiners' Handbook.

7. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

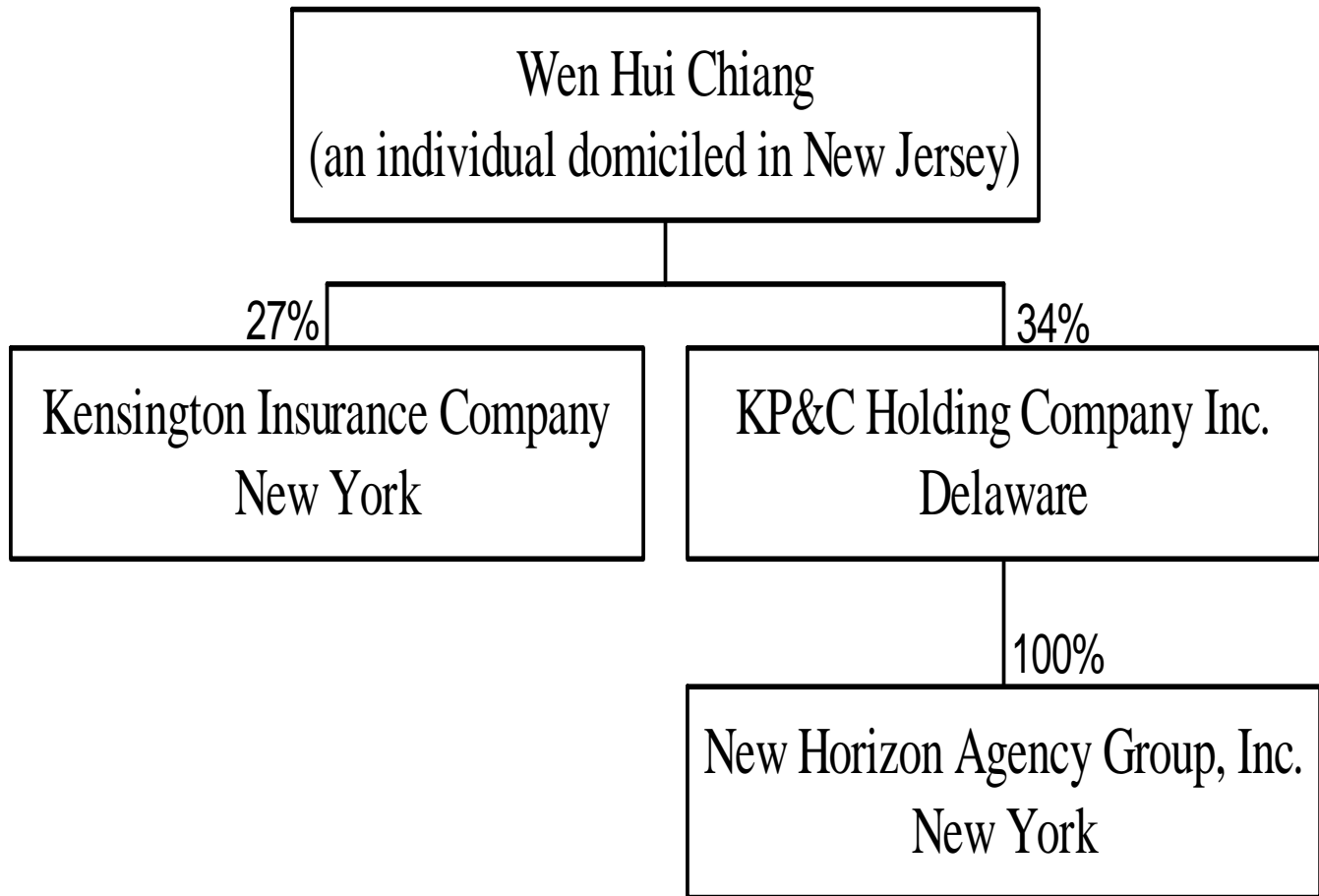
<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,600,000.

8. HOLDING COMPANY SYSTEM

The major stockholder of the Kensington Insurance Company (“KIC”) is Mr. Wen Hui Chiang. Mr. Wen Hui Chiang has subscribed for a 27% of the total investment in KIC. Mr. Chiang owns 40,000 shares of common stock, representing 5% of the Company’s outstanding common stock. His wife, Ching-Tai Chiang, owns 32,000 shares or 4% of the total common stock outstanding. His son, Danny Chiang, owns 72,000 shares of stock or 9% of the total common stock outstanding, and his other son, George Chiang, owns 72,000 shares of the common stock outstanding or 9% of the total common stock outstanding.

A chart depicting the holding company system appears below:



The Company has submitted an agency agreement with New Horizon Agency Group to the Department for review. Once implemented, this agreement will make the Company subject to the provisions of Department Regulation 52-A.

It was also noted that the Company entered into a service agreement with New Horizon Agency Group on April 1, 2004. This agreement provides for New Horizon Agency Group to provide services, to provide for front office and general ledger software setup, as well as the purchasing of hardware and software, in connection with the opening of the Company. The agreement was operational as of the examination date and is scheduled to expire on March 31, 2005. Should the parties decide to renew this agreement upon the licensing of KIC, management is directed to file such agreement for Department review pursuant to the provisions of Article 15 of the New York Insurance Law.

9. CONCLUSION

Based on the foregoing examination, it is concluded that the Company sold 800,000 shares of common stock with a par value of \$1.25 per share. These shares represented the total authorized and issued stock for which the Company received a consideration of \$4,000,000, of which \$1,000,000 represents capital paid in and \$3,000,000 represents gross paid in and contributed surplus.

10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Incorporation</u></p> <p>It is recommended that the board of directors elect the appropriate officers, as required by the Company's by-laws.</p>	<p>3</p>
<p>B. <u>Electronic Data Processing Equipment</u></p> <p>It is recommended that the Company comply with Section 1301(a)(18) of the New York State Insurance Law and only report electronic data processing equipment with a cost of \$50,000 or more.</p>	<p>6</p>
<p>C. <u>Custodial Agreement</u></p> <p>It is recommended that the Company amend the custodial agreement with the Great Eastern Bank to comply with the guidelines set forth in the NAIC Examiners' Handbook.</p>	<p>7</p>
<p>D. <u>Service Agreement</u></p> <p>Should the Company decide to renew its service agreement with New Horizon Agency upon the licensing of KIC, management is directed to file such agreement for Department review pursuant to the provisions of Article 15 of the New York Insurance Law.</p>	<p>9</p>

STATE OF NEW YORK,)
) SS.:
COUNTY OF NEW YORK)

The undersigned each an executive officer of KENSINGTON INSURANCE COMPANY (the "Company") duly sworn, depose and say under oath that, on the date of the organizational examination of the Company:

- (1) Each of the undersigned is an officer of the Company.
- (2) The Company's capital and surplus equals FOUR MILLION DOLLARS (\$4,000,000), consisting of paid in capital of ONE MILLION DOLLARS (\$1,000,000) and contributed surplus of THREE MILLION DOLLARS (\$3,000,000) (the "Capital and Surplus"). The capital and surplus is on deposit with the Great Eastern Bank.
- (3) No part of the Capital and Surplus has been withdrawn, pledged, or in any way impaired.
- (4) No part of the Capital and Surplus is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
- (5) There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it.
- (6) Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan or disposition of the Capital and Surplus, or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.
- (7) The Capital and Surplus is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.

Joseph Dan 2/1/05 Brian B. Smith 2/1/05
JOSEPH DAN Date BRIAN B. SMITH Date

Subscribed and sworn to before me
this 1st day of FEBRUARY, 2005

Lin Ling Chiou

LIN LING CHIOU
Notary Public State of New York
No. 41-4995078
Qualified in Queens County
Commission Expires April 20 2008

Appointment No 22278

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, HOWARD MILLS, Acting Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Frank Schiraldi

as proper person to examine into the affairs of the

KENSINGTON INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 18th day of January, 2005



Howard Mills

HOWARD MILLS
Acting Superintendent of Insurance