CONDOMINIUM PUBLIC REPORT

Prepared &
Issued by: Co-Developer **Herschel S.W. Chu and Sheila K. Chu**
Address 73-1435 Ihumoe Street, Kailua-Kona, HI 96740

Co-Developer **Robert Molner and Beverly Molner**
Address 73-1435A. Ihumoe Street, Kailua-Kona, HI 96740

Project Name (*): **Kalia Lani**
Project Address: 73-1435 Ihumoe Street, Kailua-Kona, HI 96740
Registration No. 3843 (conversion)
Effective date: February 26, 1998
Expiration date: March 26, 1999

Preparation of this Report:

This report has been prepared by the Developer pursuant to the Condominium Property Act, Chapter 514A, Hawaii Revised Statutes. This report is not valid unless the Hawaii Real Estate Commission has issued a registration number and effective date for the report.

This report has not been prepared or issued by the Real Estate Commission or any other government agency. Neither the Commission nor any other government agency has judged or approved the merits or value, if any, of the project or of purchasing an apartment in the project.

Buyers are encouraged to read this report carefully, and to seek professional advice before signing a sales contract for the purchase of an apartment in the project.

Expiration Date of Reports. Preliminary Public Reports and Final Public Reports automatically expire thirteen (13) months from the effective date unless a Supplementary Public Report is issued or unless the Commission issues an order, a copy of which is attached to this report, extending the effective date for the report.

Exception: The Real Estate Commission may issue an order, a copy of which shall be attached to this report, that the final public report for a two apartment condominium project shall have no expiration date.

Type of Report:

____ **PRELIMINARY:** (yellow) The developer may not as yet have created the condominium but has filed with the Real Estate Commission minimal information sufficient for a Preliminary Public Report. A Final Public Report will be issued by the developer when complete information is filed.

_X_ **FINAL:** (white) The developer has legally created a condominium and has filed complete information with the Commission.
[X] No prior reports have been issued.
[ ] This report supersedes all prior public reports.
[ ] This report must be read together with _____

____ **SUPPLEMENTARY:** (pink) This report updates information contained in the:
[ ] Preliminary Public Report dated: _____
[ ] Final Public Report dated: _____
[ ] Supplementary Public Report dated: _____

And [ ] Supersedes all prior public reports
[ ] Must be read together with _____
[ ] This report reactivates the _____
public report(s) which expired on _____

(*) Exactly as named in Declaration
FORM: RECO-30-286/986/189/1190/892/0197

Disclosure Abstract: Separate Disclosure Abstract on this condominium project:

[ ] Required and attached to this report [X] Not Required - disclosures covered in this report.

Summary of Changes from Earlier Public Reports:

This summary contains a general description of the changes, if any, made by the developer since the last public report was issued. It is not necessarily all inclusive. Prospective buyers should compare this public report with the earlier reports if they wish to know the specific changes that have been made.

[X] No prior reports have been issued by the developer.

[ ] Changes made are as follows:

SPECIAL ATTENTION

This is a CONDOMINIUM PROJECT, **not** a subdivision. It does not involve the sale of individual subdivided lots. The land area beneath and immediately appurtenant to each unit is designated a **LIMITED COMMON ELEMENT** and is **not** a legally subdivided lot. The dotted lines on the Condominium Map bounding the designated number of square feet in each limited common element land area are for illustrative purposes only and should not be construed to be the property lines of legally subdivided lots.

1. This public report does **not** constitute an approval of the project by the Real Estate Commission or any other government agency, nor does it ensure that all applicable County codes, ordinances, and subdivision requirements have been complied with.

2. Facilities and improvements normally associated with County approved subdivisions, such as fire protection devices, County street lighting, electricity, upgraded water facilities, improved access for owner and emergency traffic, drainage facilities, etc., may not necessarily be provided for, and services such as County street maintenance and trash collection will not be available for interior roads and driveways.

THE PROSPECTIVE PURCHASER IS CAUTIONED TO CAREFULLY REVIEW THE CONDOMINIUM DOCUMENTS REFERENCED IN THIS PUBLIC REPORT FOR FURTHER INFORMATION WITH REGARD TO THE FOREGOING.

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General Information On Condominiums

A condominium is a special form of real property. To create a condominium in Hawaii, the requirements of the Condominium Property Act, Chapter 514A, Hawaii Revised Statutes, must be complied with. In addition, certain requirements and approvals of the County in which the project is located must be satisfied and obtained.

Some condominium projects are leasehold. This means that the land or the building(s) and other improvements are leased to the buyer. The lease for the land usually requires that at the end of the lease term, the lessees (apartment owner/tenants) deliver their interest in the land to the lessor (fee property owner). The lease also usually requires that the lessees either (1) convey to the lessor the building(s) and other improvements, including any improvements paid for by the lessees; or (2) remove or dispose of the improvements at the lessee's expense. Leases for individual apartments often require that at the end of the lease term, the lessee deliver to the lessor the apartment, including any improvements placed in the apartment by the lessee.

If you are a typical condominium apartment owner, you will have two kinds of ownership: (1) ownership in your individual apartment; and (2) an undivided interest in the common elements.

"Common elements" are the areas of the condominium project other than the individual apartments. They are owned jointly by all apartment owners and include the land, either in fee simple or leasehold, and those parts of the building or buildings intended for common use such as foundations, columns, roofs, halls, elevators, and the like. Your undivided interest in the common elements cannot be separated from ownership of your apartment.

In some condominium projects, some common elements are reserved for the exclusive use of the owners of the owners of certain apartments. These common elements are called "limited common elements" and may include parking stalls, patios, lanais, trash chutes, and the like.

You will be entitled to exclusive ownership and possession of your apartment. Condominium apartments may be individually bought, sold, rented, mortgaged, or encumbered, and they may be disposed of by will, gift, or operation of law.

Your apartment will, however, be part of the group of apartments that comprise the condominium project. Study the project's Declaration, Bylaws, and House Rules. These documents contain important information on the use and occupancy of apartments and the common elements as well as the rules of conduct for owners, tenants, and guests.

Operation of the Condominium Project

The Association of Apartment Owners is the entity through which apartment owners may take action with regard to the administration, management, and operation of the condominium project. Each apartment owner is automatically a member of the Association.

The Board of Directors is the governing body of the Association. Unless you serve as a board member or an officer, or are on a committee appointed by the board, your participation in the administration and operation of the condominium project will in most cases be limited to your right to vote as an apartment owner. The Board of Directors and officers can take certain actions without a vote of the owners. For example, the board may hire and fire employees, increase or decrease maintenance fees, borrow money for repair and improvements and set a budget. Some of these actions may significantly impact the apartment owners.

Until there is sufficient number of purchasers of apartments to elect a majority of the Board of Directors, it is likely that the developer will effectively control the affairs of the Association. It is frequently necessary for the developer to do so during the early stages of development and the developer may reserve certain special rights to do so in the Declaration and Bylaws. Prospective buyers should understand that it is important to all apartment owners that the transition of control from the developer to the apartment owners be accomplished in an orderly manner and in a spirit of cooperation.

I. PERSONS CONNECTED WITH THE PROJECT

Co-Developer: Herschel S.W. Chu and Sheila K. Chu, Robert Molner and Beverly Molner — Phone (808) 325-7542
Name (Business)

73-1435 Ihumoe Street, Kailua-Kona, HI 96740
Business Address

Names of officers or general partners of developers who are corporations or partnerships:

N/A

Real Estate Broker: **N/A - Units are not for sale at this time (See page 20)** — Phone:
Name (Business)

Business Address

Escrow: **Title Guaranty Escrow Services, Inc.** — Phone: (808) 329-6666
Name (Business)
75-170 Hualalai Road, Ste. C310
Kailua-Kona, HI 96740
Business Address

General Contractor: **N/A** — Phone:
Name (Business)

Business Address

Condominium Managing Agent: **Self-managed by Association of Apartment Owners** — Phone:
Name (Business)

Attorney for Developer: **WALLACE H. GALLUP, JR.** — Phone: **(808) 329-5014**
Name (Business)
75-5586 Ololi Road, Suite 3007
Kailua-Kona, Hawaii 96740
Business Address

II. CREATION OF THE CONDOMINIUM; CONDOMINIUM DOCUMENTS

A condominium is created by recording in the Bureau of Conveyances and/or filing with the Land Court a Declaration of Condominium Property Regime, a Condominium Map (File Plan), and the Bylaws of the Association of Apartment Owners. The Condominium Property Act (Chapter 514A, HRS), the Declaration, Bylaws, and House Rules control the rights and obligations of the apartment owners with respect to the project and the common elements, to each other, and to their respective apartments. The provisions of these documents are intended to be, and in most cases are, enforceable in a court of law.

A. **Declaration of Condominium Property Regime** contains a description of the land, buildings, apartments, common elements, limited common elements, common interests, and other information relating to the condominium project.

The Declaration for this condominium is:

[ ] Proposed
[x] Recorded - Bureau of Conveyances — Document No. 97-118435
Book _____ Page _____

[ ] Filed - Land Court — Document Number _____

The Declaration referred to above has been amended by the following instruments [state name of document, date and recording/filing information]:

Amendment to Declaration of Condominium Property Regime of Kalia Lani, dated October 3, 1997, recorded in the Bureau of Conveyances of the State of Hawaii as Document No. 97-146997.

B. **Condominium Map (File Plan)** shows the floor plan, elevation and layout of the condominium project. It also shows the floor plan, location, apartment number, and dimensions of each apartment.

The Condominium Map for this condominium project is:

[ ] Proposed
[x] Recorded - Bureau of Conveyances Condo. Map No. 2590
[ ] Filed - Land Court Condo Map No. _____

The Condominium Map has been amended by the following instruments [state name of document, date and recording/filing information]:

C. **Bylaws of the Association of Apartment Owners** govern the operation of the condominium project. They provide for the manner in which the Board of Directors of the Association of Apartment Owners is elected, the powers and duties of the Board, the manner in which meetings will be conducted, whether pets are prohibited or allowed and other matters which affect how the condominium project will be governed.

The Bylaws for this condominium are:

[ ] Proposed
[x] Recorded - Bureau of Conveyances — Document No. 97-118436
Book _____ Page _____

[ ] Filed - Land Court — Document No. _____

The Bylaws referred to above have been amended by the following instruments [state name of document, date and recording/filing information]:

Amendment to Bylaws of the Association of Unit Owners of "Kalia Lani" Condominium Project, dated October 3, 1997, and recorded in the Bureau of Conveyances of the State of Hawaii as Document No. 97-146998

D. **House Rules.** The Board of Directors may adopt House Rules to govern the use and operation of the common elements and limited common elements. House rules may cover matters such as parking regulations, hours of operation for common facilities such as recreation areas, use of lanais and requirements for keeping pets. These rules must be followed by owners, tenants, and guests. They do not need to be recorded or filed to be effective. The initial House Rules are usually adopted by the developer.

The House Rules for this condominium are:

[ ] Proposed [ ] Adopted [**X**] Developer does not plan to adopt House Rules

E. **Changes to Condominium Documents**

Changes to the Declaration, Condominium Map, and Bylaws are effective only if they are duly adopted and recorded and/or filed. Changes to House Rules do not need to be recorded or filed to be effective.

1. Apartment Owners: Minimum percentage of common interest which must vote for or give written consent to changes:

	Minimum Set by Law	This Condominium
Declaration (and Condo Map)	75%*	**100%**
Bylaws	65%	**65%**
House Rules	---	**N/A**

* The percentages for individual condominium projects may be more than the minimum set by law for projects with five or fewer apartments.

2. Developer:

[ ] No rights have been reserved by the developer to change the Declaration, Condominium Map, Bylaws or House Rules.

[**X**] Developer has reserved the following rights to change the Declaration, Condominium Map, Bylaws or House Rules:

Any time prior to the first recording in the Bureau of Conveyances of the State of Hawaii of a conveyance or transfer (other than for security) of a unit and its appurtenances to a party not a signatory to the Declaration, the Developer may amend the Declaration, the Bylaws and/or the Condominium File Plan in any manner without approval or consent of any unit purchaser.

III. THE CONDOMINIUM PROJECT

A. **Interest to be Conveyed to Buyer:**

[x] Fee Simple: Individual apartments and the common elements, which includes the underlying land, will be in fee simple.

[ ] Leasehold or Sub-leasehold: Individual apartments and the common elements, which includes the underlying land will be leasehold.

Leases for the individual apartments and the underlying land usually require that at the end of the lease term, the lessee (apartment owner/tenant) deliver to the lessor (fee property owner) possession of the leased premises and all improvements, including improvements paid for by the lessee.

Exhibit _____ contains further explanations regarding the manner in which the renegotiated lease rents will be calculated and a description of the surrender clause provision(s).

Lease Term Expires:_____ Rent Renegotiation Date(s): _____

Lease Rent Payable: [ ] Monthly [ ] Quarterly
[ ] Semi-Annually [ ] Annually

Exhibit _____ contains a schedule of the lease rent for each apartment per [ ] Month [ ] Year.

For Sub-leaseholds:

[ ] Buyer's sublease may be canceled if the master lease between the sub-lessor and fee owner is:
[ ] Canceled [ ] Foreclosed

[ ] As long as the buyer is not in default, the buyer may continue to occupy the apartment and/or land on the same terms contained in the sublease even if the master lease is canceled or foreclosed.

[ ] Individual Apartments in Fee Simple Common Interest in the Underlying Land in Leasehold or Sub-leasehold:

Leases for the underlying land usually require that at the end of the lease term, the lessees (apartment owners/tenants) deliver to the lessor (fee property owner) their interest in the land and that they either (1) remove or dispose of the building(s) and other improvements at the lessee's expense; or (2) convey the building(s) and improvements to the lessor, often at a specified price.

Exhibit _____ contains further explanations regarding the manner in which the renegotiated lease rents will be calculated and a description of the surrender clause provisions.

Lease Term Expires:_____ Rent Renegotiation Date(s): _____

Lease Rent Payable: [ ] Monthly [ ] Quarterly
[ ] Semi-Annually [ ] Annually

Exhibit _____ contains a schedule of the lease rent for each apartment per [ ] Month [ ] Year.

[ ] Other:

IMPORTANT INFORMATION ON LEASEHOLD CONDOMINIUM PROJECTS

The information contained in this report is a summary of the terms of the lease. For more detailed information, you should secure a copy of the lease documents and read them thoroughly.

If you have any legal questions about leasehold property, the lease documents or the terms of the lease and the consequences of becoming a lessee, you should seek the advice of an attorney.

There are currently no statutory provisions for the mandatory conversion of leasehold condominiums and there are no assurances that such measures will be enacted in the future.

In leasehold condominium projects, the buyer of an apartment will acquire the right to occupy and use the apartment for the time stated in the lease agreement. The buyer will not acquire outright or absolute fee simple ownership of the land. The land is owned by the lessor or the leased fee owner. The apartment owner or lessee must make lease rent payments and comply with the terms of the lease or be subject to the lessor's enforcement actions. The lease rent payments are usually fixed at specific amounts for fixed periods of time, and are then subject to renegotiation. Renegotiation may be based on a formula, by arbitration set in the lease agreement, by law or by agreement between the lessor and lessee. The renegotiated lease rents may increase significantly. At the end of the lease, the apartment owners may have to surrender the apartments, the improvements and the land back to the lessor without any compensation (surrender clause).

When leasehold property is sold, title is normally conveyed by means of an assignment of lease, the purpose of which is similar to that of a deed. The legal and practical effect is different because the assignment conveys only the rights and obligations created by the lease, not the property itself.

The developer of this condominium project may have entered into a master ground lease with the fee simple owner of the land in order to develop the project. The developer may have then entered into a sublease or a new lease of the land with the lessee (apartment owner). The developer may lease the improvements to the apartment owner by way of an apartment lease or sublease, or sell the improvements to the apartment owners by way of a condominium conveyance or apartment deed.

B. **Underlying Land:**

Address: 73-1435 Ihumoe Street
Kailua-Kona, HI 96740

Tax Map Key: (3) 7-3-5-70 (TMK)

[ ] Address [ ] TMK is expected to change because **N/A**

Land Area: 45,248 [x] square feet [ ] acre(s)

Zoning: **AGRICULTURAL 1 Acre (A-1a)**

Herschel S. W. Chu and Sheila K. Chu
Fee Owner: Robert Molner and Beverly Molner
Name

73-1435 Ihumoe Street, Kailua-Kona, HI 96740
Address

Lessor: N/A
Name

Address

C. Buildings and Other Improvements:

1. [ ] New Building(s) [x] Conversion of Existing Building(s) [ ] Both New Building(s) and Conversion

2. Number of Buildings: 2 Floors Per Building One (1)

[x] Exhibit " A " contains further explanations.

3. Principal Construction Material:

[ ] Concrete [ ] Hollow Tile [X] Wood

[X] Other STUCCO, GLASS AND OTHER BUILDING MATERIALS

4. Permitted Uses by Zoning:

	No. of Apts.	Use Determined By Zoning		No. of Apts.	Use Determined By Zoning
[X] Residential	1	[X] Yes [ ] No	[X] Ohana	1	[X] Yes [ ] No
[ ] Commercial		[ ] Yes [ ] No	[ ] Industrial		[ ] Yes [ ] No
[ ] Mix Res/Comm		[ ] Yes [ ] No	[ ] Agricultural		[ ] Yes [ ] No
[ ] Hotel		[ ] Yes [ ] No	[ ] Recreational		[ ] Yes [ ] No
[ ] Timeshare		[ ] Yes [ ] No	[ ] Other:		[ ] Yes [ ] No

Is/Are this/these use(s) specifically permitted by the project's Declaration or Bylaws?
[X] Yes [ ] No

5. Special Use Restrictions:

The Declaration and Bylaws may contain restrictions on the use and occupancy of the apartments. Restrictions for this condominium project include but are not limited to:

[X] Pets See Sect. 12.13 of the Bylaws
[ ] Number of Occupants: _____

[X] Other: See Exhibit "J"

[ ] There are no special use restrictions.

6. Interior (fill in appropriate numbers):

Elevators: 0 Stairways: 1 (Unit 2-exterior) Trash Chutes: 0

Apt. Type	Quantity	BR/Bath	Net Living Area(sf)*	Lanai/Patio(sf)	Carport(sf)
Unit 1	1	3/2	1,750	400	370
Unit 2	1	2/2	946.5	-	-

Total Apartments 2

**Net Living Area is the floor area of the apartment measured from the interior surface of the apartment perimeter walls.*

Other documents and maps may give floor area figures which differ from those above because a different method of determining the floor area may have been used.

Boundaries of Each Apartment: **Each unit includes, but is not limited to, the footing and slab on which it is constructed, the exterior walls and roof, all interior walls, floors, ceilings, columns and partitions, and the finished surfaces thereof, the doors and door frames, window and window frames, the air space within the perimeter of the units, and all fixtures originally installed in the unit. Each unit also includes the garage or carport appurtenant thereto, if any. Each unit shall not include any pipes, shafts, wires, conduits or other utility service lines running through such unit which are utilized for or serve more than one unit, the same being deemed common elements.**

Permitted Alterations to Apartments:

SEE EXHIBIT "B"

7. Parking Stalls:

Total Parking Stalls: 4

	Regular		Compact		Tandem		
	covered	open	covered	open	covered	open	TOTAL
Assigned (for each unit)	2	2					4
Guest							
Unassigned							
Extra for Purchase							
Other:							
Total Covered & Open	4		0		0		4

[ ] Commercial parking garage permitted in condominium project.

[ ] Exhibit _____ contains additional information on parking stalls for this condominium project.

8. Recreational and Other Common Facilities.

[x] There are no recreational or common facilities.

[ ] Swimming pool [ ] Storage Area [ ] Recreation Area

[ ] Laundry Area [ ] Tennis Court [ ] Trash Chute

[ ] Other: _____

9. Compliance With Building Code and Municipal Regulations; Cost to Cure Violations

[X] There are no violations. [ ] Violations will not be cured.

[ ] Violations and cost to cure are listed below. [ ] Violations will be cured by _____

10. Condition and Expected Useful Life of Structural Components, Mechanical, and Electrical Installations (For conversions of residential apartments in existence for at least five years):

Based on a report prepared by an independent registered architect or engineer, it is the Developer's opinion that all structural components and electrical installations material to the use and enjoyment of the condominium units are presently sound and appear to be in satisfactory working condition. However, NO REPRESENTATIONS OR WARRANTIES OF ANY KIND ARE MADE AS TO THE EXPECTED USEFUL LIFE OF THE STRUCTURAL COMPONENTS AND MECHANICAL AND ELECTRICAL INSTALLATIONS MATERIAL TO THE USE AND ENJOYMENT OF THE CONDOMINIUM UNITS.

11. Conformance to Present Zoning Code

a. [X] No variances to zoning code have been granted.

[ ] Variance(s) to zoning code was/were granted as follows:

b. Conforming/Non-Conforming Uses, Structures, Lot

In general, a non-conforming use, structure, or lot is a use, structure, or lot which was lawful at one time but which does not now conform to present zoning requirements.

	Conforming	Non-Conforming	Illegal
Uses	X		
Structures	X		
Lot	X		

If a variance has been granted or if uses, improvements or lot are either non-conforming or illegal, buyer should consult with county zoning authorities as to possible limitations which may apply.

Limitations may include restrictions on extending, enlarging, or continuing the non-conformity, and restrictions on altering and repairing structures. In some cases, a non-conforming structure that is destroyed or damaged cannot be reconstructed.

The buyer may not be able to obtain financing or insurance if the condominium project has a non-conforming or illegal use, structure, or lot.

D. Common Elements, Limited Common Elements, Common Interest:

1. Common Elements: Common Elements are those parts of the condominium project other than the individual apartments. Although the common elements are owned jointly by all apartment owners, those portions of the common elements which are designated as limited common elements (see paragraph 2 below) may be used only by those apartments to which they are assigned. The common elements for this project, as described in the Declaration, are:

[X] described in Exhibit "C".

[ ] as follows:

2. Limited Common Elements: Limited Common Elements are those common elements which are reserved for the exclusive use of the owners of certain apartments.

[ ] There are no limited common elements in this project.

[X] The limited common elements and the apartments which may use them, as described in the Declaration are:

[X] described in Exhibit **"D"**.

[ ] as follows:

Note: Land area appurtenant to each unit is not a legally subdivided lot.

3. Common Interest: Each apartment will have an undivided fractional interest in all of the common elements. This interest is called the "common interest." It is used to determine each apartment's share of the maintenance fees and other common profits and expenses of the condominium. It may also be used for other purposes, including voting on matters requiring action by apartment owners. The common interests for the apartments in this project, as described in the Declaration, are:

[X] described in Exhibit **"E"**.

[ ] as follows:

E. **Encumbrances Against Title:** An encumbrance is a claim against or a liability on the property or a document affecting the title or use of the property. Encumbrances may have an adverse effect on the property or your purchase and ownership of an apartment in the project.

Exhibit **"F"** describes the encumbrances against the title contained in the title report dated November 4, 1997 and issued by **Title Guaranty of Hawaii, Inc.**

Blanket Liens:

A blanket lien is an encumbrance (such as a mortgage) on the entire condominium project that secures some type of monetary debt (such as a loan) or other obligation. A blanket lien is usually released on an apartment-by-apartment basis upon payment of specified sums so that individual apartments can be conveyed to buyers free and clear of the lien.

[ ] There are no blanket liens affecting title to the individual apartments.

[X] There are blanket liens which may affect title to the individual apartments.

Blanket liens (except for improvement district or utility assessments) must be released before the developer conveys the apartment to a buyer. Buyer's interest will be affected only if the developer defaults and the lien is foreclosed prior to conveying the apartment to buyer.

	Type of Lien	Effect on Buyer's Interest and Deposit If Developer Defaults or Lien is Foreclosed Prior to Conveyance
1.	Mortgage in favor of American Savings Bank, F.S.B., a federal savings bank	Buyer's interest will be canceled and full deposit returned to Buyer, less escrow cancellation fee.
2	Mortgage in favor of Aloha Airlines Credit Union, a federal corporation	Buyer's interest will be canceled and full deposit returned to Buyer, less escrow cancellation fee.
3.	Purchase Money Mortgage in favor of Herschel S.W. Chu and Sheila K. Chu	Buyer's interest will be canceled and full deposit returned to Buyer, less escrow cancellation fee.

F. Construction Warranties:

Warranties for individual apartments and the common elements, including the beginning and ending dates for each warranty, are as follows:

1. Building and Other Improvements:

NONE

2. Appliances:

Any manufacturer's warranties currently in effect.

G. **Status of Construction and Estimated Completion Date:**

Unit 1 was originally completed on or about August 18, 1980 **. Ohana unit 2 was completed on or about** March 4, 1992 **.**

H. **Project Phases:**

The developer [ ] has [**X**] has not reserved the right to add to, merge, or phase this condominium.

Summary of Developer's plans or right to perform for future development (such as additions, mergers or phasing):

IV. CONDOMINIUM MANAGEMENT

A. **Management of the Common Elements:** The Association of Apartment Owners is responsible for the management of the common elements and the overall operation of the condominium project. The Association may be permitted, and in some cases may be required, to employ or retain a condominium managing agent to assist the Association in managing the condominium project.

Initial Condominium Managing Agent: When the developer or the developer's affiliate is the initial condominium managing agent, the management contract must have a term of one year or less and the parties must be able to terminate the contract on notice of 60 days or less.

The initial condominium managing agent for this project, named on page five (5) of this report, is:

[ ] not affiliated with the Developer
[X] self-managed by the Association of Apartment Owners
[ ] the Developer or the Developer's affiliate.
[ ] other _____

B. **Estimate of Initial Maintenance Fees:**

The Association will make assessments against your apartment to provide funds for the operation and maintenance of the condominium project. If you are delinquent in paying the assessments, a lien may be placed on your apartment and the apartment may be sold through a foreclosure proceeding.

Initial maintenance fees are difficult to estimate and tend to increase as the condominium ages. Maintenance fees may vary depending on the services provided.

Exhibit "G" contains a schedule of estimated initial maintenance fees and maintenance fee disbursements (subject to change).

C. **Utility Charges for Apartments:**

Each apartment will be billed separately for utilities except for the following checked utilities which are included in the maintenance fees:

[X] None [ ] Electricity [ ] Gas [ ] Water

[ ] Sewer [ ] Television Cable [ ] Other _____

V. MISCELLANEOUS

A. **Sales Documents Filed With the Real Estate Commission:**

Sales documents on file with the Real Estate Commission include but are not limited to:

[ ] Notice to Owner Occupants

[X] Specimen Sales Contract

Exhibit "H" contains a summary of the pertinent provisions of the sales contract.

[X] Escrow Agreement dated **July 25, 1997**.

Exhibit "I" contains a summary of the pertinent provisions of the escrow contract.

[X] Other **Specimen Deed**

B. **Buyer's Right to Cancel Sales Contract:**

1. Rights Under the Condominium Property Act (Chapter 514A, HRS):

Preliminary Report: Sales made by the developer are not binding on the prospective buyers. Sales made by the developer may be binding on the developer unless the developer clearly states in the sales contract that sales are not binding. A prospective buyer who cancels the sales contract is entitled to a refund of all moneys paid, less any escrow cancellation fee up to $250.00.

Supplementary Report to a Preliminary Report: Same as for Preliminary Report.

Final Report, Supplementary Report to a Final Report: Sales made by the developer are binding if:

A) The Developer delivers to the buyer a copy of:
   1) Either the Final Report **OR** the Supplementary Public Report which has superseded the Final Public Report for which an effective date has been issued by the Real Estate Commission;
   AND
   2) Any other public report issued by the developer prior to the date of delivery, if the report was not previously delivered to the buyer and if the report has not been superseded;

B) The buyer is given an opportunity to read the report(s); **AND**

C) One of the following has occurred:
   1) The buyer has signed a receipt for the report(s) and waived the right to cancel; or
   2) Thirty (30) days have passed from the time the report(s) were delivered to the buyer; or
   3) The apartment is conveyed to the buyer within 30 days from the date the report(s) were delivered to the buyer.

Material Change: Binding contracts with the Developer may be rescinded by the buyer if:

A) There is a material change in the project which directly, substantially, and adversely affects (1) the use or value of the buyer's apartment or its limited elements; or (2) the amenities available for buyer's use; **AND**

B) The buyer has not waived the right to rescind.

If the buyer rescinds a binding sales contract because there has been a material change, the buyer is entitled to a full and prompt refund of any moneys the buyer paid.

2. Rights Under the Sales Contract: Before signing the sales contract, prospective buyers should ask to see and carefully review all documents relating to the project. If these documents are not in final form, the buyer should ask to see the most recent draft. These include but are not limited to the:

A) Condominium Public Reports issued by the developer which have been given an effective date by the Hawaii Real Estate Commission.
B) Declaration of Condominium Property Regime.
C) Bylaws of the Association of Apartment Owners.
D) House Rules. (None)
E) Condominium Map.
F) Escrow Agreement.
G) Hawaii's Condominium Property Act (Chapter 514A, HRS, as amended) and Hawaii Administrative Rules, (Chapter 16-107, adopted by the Real Estate Commission, as amended).
H) Other Declaration of Covenants, Conditions and Restrictions for Kona Acres Subdivision, Unit I-B

Copies of the condominium and sales documents and amendments made by the developer are available for review through the developer and are on file at the Department of Commerce and Consumer Affairs. Reprints of Hawaii's Condominium Property Act (Chapter 514A, HRS) and Hawaii Administrative Rules, Chapter 16-107, are available at the Cashier's Office, Department of Commerce and Consumer Affairs, 1010 Richards Street, 3rd Floor, Honolulu, Hawaii, mailing address: P.O. Box 541, Honolulu, Hawaii 96809, at a nominal cost.

This Public Report is Registration No. 3843 filed with the Real Estate Commission on December 3, 1997 .

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C. Additional Information Not Covered Above

Disclosure re: Selection of Real Estate Broker

This public report shall not bind a purchaser to the sale of any apartment until (1) the Developers first submit to the Real Estate Commission a duly executed disclosure abstract identifying the undesignated sales agent, and a duly executed copy of a broker listing agreement with a Hawaii-licensed real estate broker, and (2) gives a copy of said disclosure abstract to the purchaser together with a copy of the Public Report.

Pursuant to sections 16-99-3(g) and 16-99-11(d), Hawaii Administrative Rules ("HAR"), prospective purchasers are hereby advised that Developer Herschel S.W. Chu, RB 13978, is a current and active Hawaii-licensed real estate broker. Pursuant to section 16-99-11(c), HAR, "(n)o licensee shall be allowed to advertise 'For Sale By Owner', 'For Rent By Owner', 'For Lease By Owner', 'For Exchange By Owner'."

If the Developer(s), as the owners, choose to represent themselves in the sale of an apartment, said abstract need not be given to the purchaser, as all necessary disclosures are covered in this report.

Disclosure re: Replacement Reserves Study

Mandatory reserves assessments and collection in effect beginning 1994 budget year.

Developer has not had a reserves study done in accordance with Hawaii Revised Statutes Section 514A-83.6 and Hawaii Administrative Rules, Chapter 107, as amended, in that there are no common elements in this project which are going to be maintained by the Association, as reflected in Exhibit "G".

Residential Dwellings within State Land Use Agricultural District

Purchasers should be aware that the State Land Use Commission issued a Declaratory Ruling in December, 1994, regarding the construction of residential dwellings on properties located within the State Land Use Agricultural District. In response to said ruling, the Hawaii County Planning Department is requiring applicants for building permits on such lands to acknowledge receipt of a "Farm Dwelling Notice". This Farm Dwelling Notice reads as follows:

FARM DWELLING NOTICE

To: Applicants for Building Permits on Land in State Land Use Agricultural District.

This is to inform you that Chapter 205, Hawaii Revised Statutes, does not authorize residential dwellings as a permissible use in an agricultural use district, unless the dwelling is related to an agricultural activity or is a "farm dwelling".

Farm Dwelling is defined in Chapter 205-4.5(a)(4) as "a single family dwelling located on and used in connection with a farm, including clusters of single-family farm dwellings permitted within agricultural parks developed by the State or where agricultural activity provides income to the family occupying the dwelling."

Penalty for violation of Section 205-4.5, Hawaii Revised Statutes, is a fine of not more than $5,000.00. If any person who is cited for a violation of the law fails to remove the violation within six months of such citation and the violation continues, such person is subject to a citation for a new and separate violation. There shall be a fine of not more than $5,000.00 for any additional violation.

I acknowledge that I have read the above and have been given a copy

_____

Signature of Applicant

_____

Signature of Witness

D. The developer hereby certifies that all the information contained in this Report and the Exhibits attached to this Report and all documents to be furnished by the developer to buyers concerning the project have been reviewed by the developer and are, to the best of the developer's knowledge, information and belief, true, correct and complete.

Herschel S.W. Chu and Sheila K. Chu
Robert Molner and Beverly Molner
Printed Name of Developer

Herschel S.W. Chu 11/14/97

HERSCHEL S.W. CHU Date
Co-Developer

Sheila K. Chu 11/14/97

SHEILA K. CHU Date
Co-Developer

11/14/97

ROBERT MOLNER Date
Co-Developer

Beverly A. Molner 11/14/97

BEVERLY MOLNER Date
Co-Developer

Distribution:

Department of Finance, **County of Hawaii**
Planning Department, **County of Hawaii**
Federal Housing Administration

EXHIBIT "A"

DESCRIPTION OF BUILDINGS

The project consists of two buildings. Each building contains one apartment ("unit"). Unit 1 is a one (1) level residential building which also contains an attached two (2) car carport and is constructed principally of stucco, wood, glass and related building materials. Unit 2 is a one (1) story residential building and is constructed principally of wood, glass and related building materials. Neither unit has a basement.

EXHIBIT "B"

ALTERATION OF PROJECT

The dimensions, area and location of each unit are shown graphically on the Condominium Map. Each unit shall include and contain all space, including but not limited to the residential building(s), if any, and other improvements within the area bounded by the perimeter boundaries of such unit, as follows:

Paragraph L of the declaration provides as follows:

1. Each unit owner shall have the right at his sole option at any time and from time to time, as hereinafter set forth, without the consent and/or approval of the owner of the other unit or any other persons or entity, to improve, renovate, remodel, make additions to, enlarge, remove, replace, alter or restore the improvements to or in his unit or portions thereof or upon the yard appurtenant to his unit (collectively, the foregoing are referred to as "alterations"). Each unit owner shall have the right without the consent or joinder of any other person to amend this declaration and the Condominium File Plan to accomplish any such alterations. If required by the Act, promptly upon completion of such alterations the owner of the altered unit shall duly file such amendment to this declaration in the Land Court together with a complete set of the floor plans of such unit as so altered, certified by a registered architect or professional engineer to fully and accurately depict the altered portions of the property as built. If required by the Act, the Board shall be deemed to approve of all such alterations. All existing unit owners and all future unit owners and their mortgagees, by accepting an interest in a unit, consent to all such alterations and agree to give and shall be deemed to have given the owner of the altered unit a power of attorney to execute and amendment to the declaration solely for the purpose of describing the alterations to such unit in the declaration so that the owner of the altered unit shall hereafter have a power of attorney from all the other unit owners to execute such amendment to the declaration. This power of attorney shall be deemed coupled with each owner's interest in his unit (including his common interest) and shall be irrevocable.

2. Any alterations to a unit pursuant to this paragraph L shall be subject to the following conditions:

(a) All buildings plans for any such alterations shall conform with State and County land use, building and zoning laws and other applicable County ordinances and regulations as well as the restrictive covenants applicable to the property, if any.

(b) Such alterations may decrease or increase the size of the affected unit, provided that no alteration shall extend or place the unit outside of the limits of the yard appurtenant to such unit.

(c) All such alterations shall be at the sole expense of the unit owner making the change and shall be made within one year of the commencement thereof and in a manner that will not unreasonably interfere with the other unit owner's use of his unit or yard.

(d) The owner of the altered unit shall have the right to utilize, relocate and realign existing and/or to develop additional, central and appurtenant installations for services to the unit affected by such alteration for electricity, sewer and other utilities and services and when applicable, to add, delete, relocate, realign, designate and grant easement and rights-of-way over, under and on the common elements as necessary or desirable in connection therewith; provided that the same shall not cause any interruption in the service of such utilities to any other part of the project, nor shall it unreasonably interfere with the other unit owner's use or enjoyment of his unit or yard.

(e) Each and every conveyance, lease and mortgage or other lien made or created on any unit and all common interests and other appurtenances thereto shall be subject to the provisions of this paragraph and any lease of a unit shall reserve to all unit owners the rights set forth in this paragraph.

(f) Before commencing or permitting construction on any alteration of a unit pursuant to this paragraph L, the costs of which will exceed $10,000, the unit owner thereof, at his sole expense, shall obtain and provide the other unit owner with evidence of a bond or certificate, or an irrevocable letter of credit issued by a bank authorized to do business in the State of Hawaii, in an amount of not less than one hundred percent (100%) of the cost of such construction, or, in lieu thereof, a guarantee against mechanics' and materialmen's liens satisfactory to the other unit owner.

EXHIBIT "C"

COMMON ELEMENTS

The common elements of the project shall specifically include, but are not limited to, the following:

1. The land described in Exhibit "A" attached to the Declaration, in fee simple.

2. All yards, grounds, landscaped areas, retaining walls, parking areas and driveways around and between the units.

3. All central and appurtenant installations for common services, including power, light, water, telephone and sewer.

4. Any and all apparatus and installations of common use and all other parts of the project necessary or convenient to its existence, maintenance and safety, or normally in common use.

EXHIBIT "D"

LIMITED COMMON ELEMENTS

The units shall have appurtenant thereto easements for the exclusive use of certain limited common elements as follows:

Certain parts of the common elements, referred to as the "limited common elements', are designated and set aside for the exclusive use of certain units, and such units shall have appurtenant easements for the exclusive use of such limited common elements. The limited common elements are described in the Declaration as follows:

PRIVATE LAND AREA OR YARD. Certain land area of the project, located as shown on the condominium map and designated thereon as limited common element, together with all improvements thereon, is appurtenant to and for the exclusive use of each unit as designated on the condominium map.

Unit No.	Yard No.	Area	
1	1	21,149 sf	(All land area on the westerly side of the limited common area dividing line.)
2	2	24,009 sf	(All land area on the easterly side of the limited common area dividing line.)

NOTE: The boundaries of the yard area appurtenant to each unit, as shown on the Condominium File Plan do not represent County-approved subdivided lots. Such boundaries serve only to delineate the limited common element yard area appurtenant to each unit.

WATER METER AND WATERLINES Each unit is served by a separate waterline which is appurtenant to and for the exclusive use of the unit to which it is attached. The two separate waterlines, however, are connected to a one waterline which is attached to only one county water meter situate on Ihumoe Street. The County water meter and the waterline that lies between it and the two separate waterlines shall be considered to be common elements. The private water meter and waterline which lies between it and Unit 1 shall be considered to be a limited common element appurtenant to Unit 1. The waterline which lies between the private water meter and Unit 2 shall be considered to be a limited common element appurtenant to Unit 2. If in the future the owner of Unit 2 has another County water meter installed to provide water to the waterline servicing Unit 2 that water meter shall be considered to be a limited common element of Unit 2 and the existing water meter shall then be considered to be a limited common element of Unit 1.

SEWAGE SYSTEM Each unit is served by a separate cesspool which is located in the yard area appurtenant to each unit, respectively. The cesspool which serves a unit and the pipeline that connects it to a unit shall be considered to be a limited common element appurtenant to the unit.

EXHIBIT "E"

COMMON INTEREST

Unit No.	Undivided Common Interest
1	50%
2	50%

EXHIBIT "F"

ENCUMBRANCES AGAINST TITLE

1. For information regarding real property taxes as may be due and owing, reference is made to the Director of Finance, County of Hawaii.

2. Title to all minerals and metallic mines reserved to the State of Hawaii.

3. The terms and provisions, including the failure to comply with any covenants, conditions and reservations, contained Declaration recorded in said Bureau in Liber 12852, Page 372.

4. Designation of Easement "C" (3 feet wide) for the purpose of a pole guy and anchor as shown on File Plan No. 1550.

5. Mortgage dated April 8, 1992 by and between Herschel S.W. Chu and Sheila K. Chu, husband and wife, as Mortgagor, and American Savings Ban, F.S.B., a federal savings bank, as Mortgagee, and recorded in said Bureau as Document No. 92-056938.

6. Mortgage, Security Agreement and Financing Statement dated May 26, 1994, by and between Herschel S.W. Chu and Sheila K. Chu, husband and wife, as Mortgagor and Aloha Airlines Federal Credit Union, a federal corporation, and recorded in said Bureau as Document No. 94-088654 and amended by instrument dated August 13, 1996 recorded in said Bureau as Document No. 96-116068.

7. Purchase Money Mortgage dated July 25, 1997, by and between Robert Molner and Beverly Molner, husband and wife, as Borrower, and Herschel S.W. Chu and Sheila K. Chu, husband and wife, as Lender, and recorded in said Bureau as Document No. 97-102169.

8. Right of First Refusal and Option dated July 25, 1997, recorded in said Bureau as Document No. 97-102170, by and between Robert Molner and Beverly Molner, husband and wife, "Owner", and Herschel S.W. Chu and Sheila K. Chu, husband and wife, "Buyer", re: That Owner agrees and contracts with Buyer that Owner will not sell that certain real property without first offering the Property to Buyer. This Right of First Refusal and Option shall remain in full force and effect through and including August 1, 2000 at which time it shall be deemed to have automatically expired.

9. Declaration of Condominium Property Regime of Kalia Lani dated July 25, 1997, and recorded in said Bureau as Document No. 97-118435.

   Said Declaration of Condominium Property Regime of Kalia Lani was amended by instrument dated October 3, 1997, recorded in said Bureau as Document No. 97-146997.

10. ByLaws of the Association of Apartment Owners of Kalia Lani dated July 25, 1997, and recorded in said Bureau as Document No. 97-118436.

    Said ByLaws were amended by instrument dated October 3, 1997, and recorded in said Bureau as Document No. 97-146998.

11. Condominium File Plan No. 1550.

END OF EXHIBIT "F"

EXHIBIT "G"

ESTIMATED MAINTENANCE FEES

The regular maintenance and repair of each unit and appurtenant limited common elements shall be the sole responsibility of each respective unit owner. Section 514A-86, Hawaii Revised Statutes, requires that the association purchase fire insurance to cover the improvements portion of the project. The Declarant anticipates that the association will elect to require each owner to obtain separate fire insurance and liability policies for his respective unit pursuant to Article 7 of the Bylaws. As such, premiums for such policies will be the individual responsibility of each unit owner. he Declarant estimates that the annual premium for a fire insurance policy covering Unit 1 may be approximately $ 390.00 and Unit 2 may be approximately $301.00.

EXHIBIT "H"

SUMMARY OF CONDOMINIUM DEPOSIT RECEIPT AND SALES CONTRACT

The Condominium Deposit Receipt and Sales Contract (the "Sales Contract") contains the price and other terms and conditions under which a purchaser will agree to buy a unit in the Project. Among other things, the Sales Contract states:

(a) The total purchase price, method of payment and additional sums which must be paid in connection with the purchase of a unit.

(b) That the purchaser acknowledges having received and read a public report (either preliminary or final) for the Project prior to signing the Sales Contract.

(c) That the Developer makes no representations concerning rental of a unit, income or profit from a unit, or any other economic benefit to be derived from the purchase of a unit.

(d) That the purchaser's money will be held in escrow, under the terms of the Escrow Agreement.

(e) Requirements relating to the purchaser's financing of the purchase of a unit.

(f) That the unit and the Project will be subject to various other legal documents which the purchaser should examine, and that the Developer may change these documents under certain circumstances.

(g) That the Developer makes no warranties regarding the unit, the Project or anything installed or contained in the unit or the Project.

(h) That the purchaser must close the purchase at a certain date and pay closing costs, in addition to the purchase price.

(i) That the purchaser will not receive interest on deposits made under the Sales Contract.

(j) In the event of a default by the purchase under the Sales Contract, the Declarant may, in addition to other remedies, be entitled to all deposits paid by the purchaser as liquidated damages.

The Sales Contract contains various other important provisions relating to the purchase of a unit in the Project. It is incumbent upon purchasers and prospective purchasers to read with care the specimen Sales Contract on file with the Real Estate Commission.

EXHIBIT "I"

SUMMARY OF ESCROW AGREEMENT

The Escrow Agreement sets up an arrangement under which the deposits a purchaser makes pursuant to a Sales Contract will be held by a neutral party ("Escrow"). Under the Escrow Agreement, these things will or may happen:

(a) Escrow will let the purchaser know when payments are due.

(b) Escrow will arrange for the purchaser to sign all necessary documents.

(c) The purchaser will be entitled to a refund of his or her funds only under certain circumstances as set forth in the Sales Contract.

The Escrow Agreement also establishes the procedures for the retention and disbursement of a purchaser's funds and says what will happen to the funds upon a default under the Sales Contract. The Escrow Agreement contains various other important provisions and establishes certain charges with which a purchaser should be familiar. It is incumbent upon purchasers and prospective purchasers to read with care the executed Escrow Agreement on file with the Real Estate Commission.

EXHIBIT "J"

SUMMARY OF DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR " KALIA LANI"

The Kalia Lani condominium project is subject to that certain Declaration of Covenants, Conditions and Restrictions for the "Kona Acres" subdivision ("Declaration") of which the "Kalia Lani" condominium project is a part, which Declaration recorded in the Bureau of Conveyances of the State of Hawaii in Liber 12852, Page 372 and which, among other things, in summary provides as follows:

1. The premises shall be used for single-family residence purposes only, and any house built thereon shall contain a minimum of 950 square feet of enclosed living area and shall be built in accordance with plans and specifications approved in writing by Grantee.

2. All buildings and other structures erected or maintained on the property must be constructed of new materials.

3. No sheet metal roofs will be permitted, except coated metal tiles such as Decromastic roof tile or its equivalent.

4. No structure built on the property shall extend in excess of 24 feet above grade.

5. All of the foregoing covenants shall run with the land and shall be binding on all parties claiming under the Grantee through December 31, 1999. Grantor, its successors and assigns, may, and do hereby reserve the right to amend, modify or cancel with the approval of a majority of the lot owners in the subdivision, any of the covenants set forth above. In the event of breach of any of the foregoing covenants, Grantor, its successors and assigns, may bring an action for damages, a suit for injunction (mandatory or restraining) or may pursue any other available relief alternatively or cumulatively, and judgment shall include all reasonable expenses and attorney's fees incurred as a result thereof.