

CONDOMINIUM PUBLIC REPORT

Prepared & Issued by: Developer PETER DAVID NERVO and JOANNE C. NERVO
Address 2153 Snook Drive, Naples, Florida 34102-1573
Project Name(*): Aloha Bay Club/Kaimalu Orchard Condominiums
Address Kahauloa-Iki and Kahauloa-Nui, North Kona, Island, County and State of Hawaii
Registration No. 3935 (Conversion) Effective date: May 29, 1998
Expiration date: June 29, 1999

Preparation of this Report:

This report has been prepared by the Developer pursuant to the Condominium Property Act, Chapter 514A, Hawaii Revised Statutes, as amended. 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.
 - FINAL:**
(white) The developer has legally created a condominium and has filed complete information with the Commission.
 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 the 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 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.

No prior reports have been issued by the Commission.

Changes made are as follows:

SPECIAL ATTENTION

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

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

Prospective purchasers are advised that as of the effective date of this report, no additional comments have been received from the Hawaii County Planning Department. If and when such additional comments are received which are contrary or in addition to the information contained herein, a copy shall be provided to each purchaser or prospective purchaser. If the information represents material facts not already disclosed in this public report, the Commission may require the Developer to prepare a Supplementary public report.

THE PROSPECTIVE PURCHASER IS CAUTIONED TO CAREFULLY REVIEW THE CONDOMINIUM DOCUMENTS FOR FURTHER INFORMATION WITH REGARDS 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 owners/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 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 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 the 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 a 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

Developer: PETER DAVID NERVO and JOANNE C. NERVO Phone: (941) 417-0018
Name (Business)
2153 Snook Drive
Business Address
Naples, Florida 34102-1573

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

N/A

Real Estate Broker: Action Team Realty, Inc. Phone: (808) 329-8626
Name (Business)
75-6082 Alii Drive (Roger M. Hibline - RB-15153)
Business Address
Kailua-Kona, Hawaii 96740

Escrow: Title Guaranty Escrow Services, Inc. Phone: (808) 329-6666 (Kona)
Name (Business)
235 Queen Street, Honolulu, Hawaii 96813
Business Address
75-170 Hualalai Road, C310, Kailua-Kona, Hawaii 96740

General Contractor: N/A: Project completed in 1995. Phone: _____
Name (Business)

Business Address

Condominium Managing Agent: Project will be self-managed by the Phone: _____
Name (Business)
Association of Apartment Owners.
Business Address

Attorney for Developer: Robert D. Triantos Phone: (808) 329-6464
Name (Business)
Carlsmith Ball Wichman Case & Ichiki
P. O. Box 1720
Business Address
Kailua-Kona, Hawaii 96745

**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
 Recorded - Bureau of Conveyances: Document No. 98-019095
Book _____ Page ____
 Filed - Land Court Document No. _____

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

- 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 the condominium project is:

Proposed
 Recorded - Bureau of Conveyances Condo Map No. 2681
 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
 Recorded - Bureau of Conveyances: Document No. 98-019096
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]:

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 Developer does not plan to adopt House Rules and attached to this report as Exhibit H.

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:

	<u>Minimum Set by Law</u>	<u>This Condominium</u>
Declaration (and Condo Map)	75%*	<u>75%</u>
Bylaws	65%	<u>65%</u>
House Rules	----	<u>majority of Board of Directors</u>

*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.

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

During the sales period, the Developer has reserved the right to make any changes to the project documents and the project as may be required by law, any title insurance company, and institutional lender or any governmental agency; and, prior to the conveyance or transfer of the first unit, for any reason and in any manner as the developer deems necessary, provided that no such change shall substantially alter or reduce the usable space within the unit, render unenforceable the Buyer's mortgage loan commitment, increase the Buyer's share of common expenses, or reduce the obligations of the Developer for common expenses or unsold units.

III. THE CONDOMINIUM PROJECT

A. Interest to be Conveyed to Buyer:

- Fee Simple: Individual apartments and the common elements, which include the underlying land, will be in fee simple.
- Leasehold or Subleasehold: Individual apartments and the common elements, which include 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 Subleaseholds:

Buyer's sublease may be cancelled if the master lease between the sublessor and fee owner is: Cancelled 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 cancelled or foreclosed.

Individual Apartments in Fee Simple; Common Interest in the Underlying Land in Leasehold or Subleasehold:

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 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

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 purposes 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: Kahauloa-Iki and Kahauloa-Nui, North Kona Tax Map Key (TMK): (3) 8-2-08:52
Island, County and State of Hawaii

Address TMK is expected to change because _____

Land Area: 3.00 square feet acre(s) Zoning: A-5a/Unplanned
(Per Hawaii County Zoning Code amended December 1996: Agricultural-Minimum 5 acres)
(Prior zoning designation: Unplanned)

Fee Owner: PETER DAVID NERVO and JOANNE C. NERVO
 Name
2153 Snook Drive, Naples, Florida 34102-1573
 Address

Sublessor: _____
 Name

 Address

C. **Buildings and Other Improvements:**

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

2. Number of Buildings: 3 Floors Per Building: 2

Exhibit A contains further explanations.

3. Principal Construction Material:

Concrete Hollow Tile Wood
 Other _____

4. Permitted Uses by Zoning:

	No. of <u>Apts.</u>	Use Permitted <u>By Zoning</u>		No. of <u>Apts.</u>	Use Determined <u>By Zoning</u>
<input type="checkbox"/> Residential	___	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Ohana	___	<input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Commercial	___	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Industrial	___	<input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Mix Res/Comm	___	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Agricultural	<u>3</u>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Hotel	___	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Recreational	___	<input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Timeshare	___	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Other:	___	<input type="checkbox"/> Yes <input type="checkbox"/> No

Is/Are this/these use(s) specifically permitted by the project's Declaration or Bylaws?

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:

Pets: Any animals or pets kept, raised or held for sale by an Owner shall be confined within a fenced enclosure within the Owner's Apartment or within the Owner's Apartment's appurtenant yard. See Bylaws, Article V, Section 2.g., Page 17.

Number of Occupants: The Apartments shall be occupied and used only as private dwellings by the Owners thereof, their tenants, families, servants and social guests, and shall at all times be occupied and used as a permanent or temporary residence in accordance with applicable laws and for no other purposes except those uses allowed under the County of Hawaii Zoning Code, the laws of the State of Hawaii relating to land use districts (Chapter 205, Hawaii Revised Statutes), these Bylaws and the Declaration. See Bylaws, Article V, Section 2.h., Page 17.

Other: _____

There are no special use restrictions.

6. Interior (fill in appropriate numbers):

Elevators: 0 Stairways: 0 Trash Chutes: 0

<u>Apt Type</u>	<u>Quantity</u>	<u>BR/Bath</u>	<u>Net Living Area (sf)*</u>	<u>Lanai/Patio (sf)</u>	<u>(Identify)</u>
<u>Unit A</u>	<u>1</u>	<u>3/2</u>	<u>1,435</u>	<u>335</u>	<u>1,728 sf: carport/storage</u>
<u>Unit B</u>	<u>1</u>	<u>3/2</u>	<u>1,435</u>	<u>335</u>	<u>1,728 sf: carport/storage</u>
<u>Unit C</u>	<u>1</u>	<u>3/2</u>	<u>1,435</u>	<u>335</u>	<u>1,728 sf: carport/storage</u>

Total Apartments: 3

***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 Apartment shall be deemed to include (i) all portions of the structure, inclusive of concrete footings, (ii) all pipes, shafts, ducts, pumps, conduits, wires and other utility or service lines running through such Apartment or which are utilized for and serve only that Apartment, (iii) all appliances and fixtures installed therein and replacements thereof, (iv) the footings or slab on which the structure 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, windows and window frames, the air space within the perimeters of the Apartment.

Permitted Alterations to Apartments: Each Apartment 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 Apartment 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 Apartment or portions thereof or upon the Yard appurtenant to his Apartment.

7. Parking Stalls:

Total Parking Stalls: 6

	<u>Regular</u>		<u>Compact</u>		<u>Tandem</u>		<u>TOTAL</u>
	<u>Covered</u>	<u>Open</u>	<u>Covered</u>	<u>Open</u>	<u>Covered</u>	<u>Open</u>	
Assigned (for each unit)	<u>2</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>6</u>
Guest Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Extra for Purchase	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other:	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Covered & Open:	<u>6</u>	<u> </u>	<u>0</u>	<u> </u>	<u>0</u>	<u> </u>	<u>6</u>

Each apartment will have the exclusive use of at least 2 parking stall(s).
Buyers are encouraged to find out which stall(s) will be available for their use.

- Commercial parking garage permitted in condominium project.
- Exhibit contains additional information on parking stalls for this condominium project.

8. Recreational and Other Common Facilities:

- There are no recreational or common facilities.
- Swimming pool Storage Area Recreation Area
- Laundry Area Tennis Court Trash Chute/Enclosure(s)
- Other: _____

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

- There are no violations. Violations will not be cured.
- Violations and cost to cure are listed below Violations will be cured by _____ (Date)

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):

The structural components and the mechanical and electrical systems are in fair to good condition consistent with their age. The Developer is not able to make any representations as to the useful life of the structural components or the mechanical and electrical systems.

11. Conformance to Present Zoning Code

- a. 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.

	<u>Conforming</u>	<u>Non-Conforming</u>	<u>Illegal</u>	
Uses	<u> X </u>	<u> </u>	<u> </u>	
Structures	<u> X </u>	<u> </u>	<u> </u>	
Lot	<u> </u>	<u> X* </u>	<u> </u>	*Pre-existing 3.00± acre lot located within A-5a zoning. See, Exhibit I, Project Compliance Letter.

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:

- described in Exhibit B.
 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.

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

described in Exhibit C.

as follows:

Note: Land areas referenced herein are not legally subdivided lots.

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 project. 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:

described in Exhibit ____.

as follows:

Unit A - 1/3

Unit B - 1/3

Unit C - 1/3

The foregoing percentages were calculated to provide each apartment owner with a roughly equal percentage of common interest in the condominium project.

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 D describes the encumbrances against the title contained in the title report dated March 2, 1998, and issued by Title Guaranty of Hawaii, Incorporated.

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. The buyer's interest will be affected if the developer defaults and the lien is foreclosed prior to conveying the apartment to buyer.

<u>Type of Lien</u>	<u>Effect on Buyer's Interest and Deposit if Developer Defaults or Lien is Foreclosed Prior to Conveyance</u>
Purchase Money Mortgage [Edward P. Simonson, Mortgagee] \$30,000.00	Buyer's interest may be terminated, and the Buyer will receive back any deposit(s) paid to escrow less the escrow cancellation fee of not more than \$250.00. However, the Buyer's interest under the Sales Contract usually will be subordinate to the blanket lien. Therefore, upon foreclosure of the blanket lien, the lien holder may be able to terminate the Buyer's interest.

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:

Seller makes no express warranties. SELLER DISCLAIMS ANY IMPLIED WARRANTY OF HABITABILITY, ANY IMPLIED WARRANTY OF MERCHANTABILITY, ANY IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OR USE, ANY IMPLIED WARRANTY OF WORKMANSHIP AND ANY OTHER EXPRESS OR ANY IMPLIED WARRANTIES WITH RESPECT TO THE APARTMENTS, THE COMMON ELEMENTS OR THE PROJECT.

Seller disclaims any and all responsibility or liability for any water infiltration, any malfunction, any construction or design defect, or any other problems which Buyer may encounter with respect to the Apartments or the Project.

2. Appliances:

Seller warrants that all major appliances, plumbing and electrical fixtures included in the sale will be in working order consistent with their age as of the date of closing, or occupancy, if earlier. No continuing warranty is expressed or implied.

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

Unit A: Completed in 1995.

Unit B: Completed in 1995.

Unit C: Completed in 1995.

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:

- | | |
|---|--|
| <input type="checkbox"/> not affiliated with the Developer | <input type="checkbox"/> the Developer or the Developer's affiliate. |
| <input checked="" type="checkbox"/> self-managed by the Association of Apartment Owners | <input type="checkbox"/> 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, your apartment may be liened and 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 E 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:

- | | |
|--|--|
| <input checked="" type="checkbox"/> None | <input type="checkbox"/> Electricity (____ Common Elements only ____ Common Elements & Apartments) |
| <input type="checkbox"/> Gas | (____ Common Elements only ____ Common Elements & Apartments) |
| <input type="checkbox"/> Water | <input type="checkbox"/> Sewer <input type="checkbox"/> Television Cable |
| <input type="checkbox"/> 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
- Specimen Sales Contract
Exhibit F contains a summary of the pertinent provisions of the sales contract.
- Escrow Agreement dated February 5, 1998
Exhibit G contains a summary of the pertinent provisions of the escrow agreement.
- Other _____

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 buyer. 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 or 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 Public 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 common 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 issued an effective date by the Hawaii Real Estate Commission.
- B) Declaration of Condominium Property Regime, as amended.
- C) Bylaws of the Association of Apartment Owners, as amended.
- D) House Rules, if any.
- E) Condominium Map, as amended.
- 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 Farm Dwelling Notice

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, HI 96809, at a nominal cost.

This Public Report is a part of Registration No. 3935 filed with the Real Estate Commission on April 15, 1998.

Reproduction of Report. When reproduced, this report must be on:

YELLOW paper stock WHITE paper stock PINK paper stock

Additional Information Not Covered Above

- A. The land is zoned "Agricultural" (A-5a) by the County of Hawaii, which designation permits single-family and farm dwellings and related uses set forth in the Zoning Code of the Hawaii County Code, and is located within the Special Management Area of the County of Hawaii.

The Hawaii County Planning Department in its letter dated October 7, 1997, in pertinent part, states: (See, Exhibit I, Project Compliance Letter.)

- "1. The subject 130,682 square feet parcel is zoned Agricultural-5 acres (A-5a) by the County and designated Agricultural by the State Land Use Commission.
2. Our records indicate that building permits taken out for three dwellings and two additions to the dwelling were closed as final inspections were recorded by the Department of Public Works, Building Division.
3. Variances were not required to achieve compliance with the zoning and building ordinance codes.
4. Our records do not include any reference to non-conforming uses/structures on this property. However, the lot is non-conforming in size with respect to the minimum 5 acres required for the zone district."

- B. The land is located within the Kealahou Historic District of the County of Hawaii.

The Hawaii County Planning Department in its letter dated July 7, 1995, in pertinent part, states: (See, Exhibit J, Historic Site Clearance Letter.)

- "1. March 14, 1995, the subject property was visited by Marc Smith, Historic Preservation Division staff archaeologist followed with a letter dated April 17, 1995 from DLNR confirming site inspection. Site inspection also confirmed 'no significant historic site remain in the parcel'."

- C. Prospective purchasers are advised to consult with the County of Hawaii's Planning Department and Department of Public Works, and the State of Hawaii's Department of Land and Natural Resources, for permitted uses and structures and the construction of improvements on the land prior to purchasing.

- D. Construction of structures and improvements to existing structures must conform to County and State of Hawaii zoning and building ordinances and regulations.

- E. The land areas depicted on the Project Plot Plan (or Condominium Map) submitted to the Real Estate Commission represent limited common elements of approximately 0.455 acres appurtenant to Unit A, approximately 0.662 acres appurtenant to Unit B, and approximately 1.779 acres appurtenant to Unit C. These lands do not represent legally subdivided lands.

F. 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. 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 for any additional violation.

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

Signature of Applicant

Signature of Witness

G. Mailboxes. Mailboxes have not been provided for the units, as there is no mail delivery to this area. People in this area customarily maintain a post office box at the local post office.

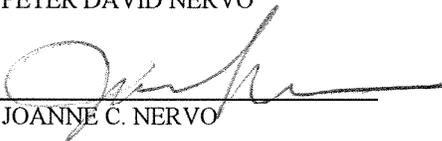
- D. The developer hereby certifies that all the information contained in this Report and the Exhibits attached to this Report and all documents to be furnished by the developer to buyers concerning the project have been reviewed by the developer and are, to the best of the developer's knowledge, information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

PETER DAVID NERVO and JOANNE C. NERVO

Name of Developer

By: 
PETER DAVID NERVO

4-8-98
Date

By: 
JOANNE C. NERVO

4-8-98
Date

Distribution:

Department of Finance, County of Hawaii
Planning Department, County of Hawaii

EXHIBIT A

PROJECT DESCRIPTION

1. Description of the Buildings: The Project is described in the Condominium Map and consists of the following:

a. Three (3) residential buildings, being Unit A consisting of a single family structure consisting of two (2) stories (no basement) and constructed principally of wood, glass, reinforced concrete and gypsum board, Unit B consisting of a single family structure consisting of two (2) stories (no basement) and constructed principally of wood, glass, reinforced concrete and gypsum board, and Unit C consisting of a single family structure consisting of two (2) stories (no basement) and constructed principally of wood, glass, reinforced concrete and gypsum board.

b. If the descriptions and divisions set forth in this Declaration conflict with the depictions and divisions shown on the Condominium Map, the latter shall control. The Condominium Map is intended only to show the layout, location, Apartment numbers, dimensions and elevations of the Apartments and is not intended and shall not be deemed to contain or make any other representation or warranty.

2. Description of the Apartments. Each of the three (3) Apartments shown on the Condominium Map, together with the perimeter interior and exterior walls, whether load bearing or not, doors, windows, all floors, floor slabs and ceilings, roofs, stairways, shafts, concrete footings, carports, garages, wires, and other conduits and any other utility or service lines which are utilized for and serve only the respective Units which are hereby designated as the Apartments of the Project, as shown on the Condominium Map and as described as follows:

a. Apartment Numbers and Locations. The Apartment numbers and the location of Apartments are shown on the Condominium Map.

b. Layout and Area. The various Apartments and their respective areas are more particularly described as follows:

(1) Unit A: This Apartment consists of a free standing two (2) story building containing a net living area of approximately 1,435 square feet, consisting of a kitchen, dining area, living room, three (3) bedrooms, two (2) bathrooms, closets and hallways, together with porch and lanai areas of approximately 335 square feet, and a two (2) car carport, laundry and storage area of approximately 1,728 square feet.

(2) Unit B: This Apartment consists of a free standing two (2) story building containing a net living area of approximately 1,435 square feet, consisting of a kitchen, dining area, living room, three (3) bedrooms, two (2) bathrooms, closets and hallways, together

with porch and lanai areas of approximately 335 square feet, and a two (2) car carport, laundry and storage area of approximately 1,728 square feet.

(3) Unit C: This Apartment consists of a free standing two (2) story building containing a net living area of approximately 1,435 square feet, consisting of a kitchen, dining area, living room, three (3) bedrooms, two (2) bathrooms, closets and hallways, together with porch and lanai areas of approximately 335 square feet, and a two (2) car carport, laundry and storage area of approximately 1,728 square feet.

The foregoing approximate total square footages of net living area for the enclosed portions of the Apartments are computed from and to the interior surfaces of the Apartment perimeter walls.

EXHIBIT B

COMMON ELEMENTS

Common Elements. One freehold estate is hereby designated in all remaining portions of the Project, herein called the "Common Elements", including specifically, but not limited to:

1. The Land in fee simple.
2. All grounds and landscaping, if any, whether within or appurtenant to the Project.
3. All ducts, sewer lines, cesspools, electrical equipment, wiring, pipes and other appurtenant transmission facilities over, under and across the Project which are outside of the Apartment and which serve more than one Apartment for services such as power, light, water, gas, sewer, refuse, telephone and radio and television signal distribution.
4. Any and all other apparatus and installations of common use and all other parts of the property necessary or convenient to its existence, maintenance and safety, or normally in common use.
5. Any area labeled common area on the Condominium Map.

EXHIBIT C

LIMITED COMMON ELEMENTS

Limited Common Elements. Certain parts of the Common Elements, herein called the "Limited Common Elements", are hereby designated, set aside and reserved for the exclusive use of certain Apartments, and such Apartments shall have appurtenant thereto exclusive easements for the use of such Limited Common Elements as set forth herein. The costs and expenses of every description pertaining to the Limited Common Elements, including but not limited to the costs of maintenance, repair, replacement, improvement or additions to the Limited Common Elements, shall be charged to the Owner of the Apartment to which the Limited Common Element is appurtenant, and if there is more than one Apartment to which the Limited Common Element is appurtenant, then in proportion to the Common Interest appurtenant to each of the respective Apartments except as otherwise provided in this Paragraph. "Limited Common Elements" appurtenant to any Apartment or Unit herein are also referred to as "Yard", and shall have one and the same meaning.

1. Unit A shall have Yard A as shown on the Condominium Map appurtenant to it as Limited Common Element - Unit A. Unit B shall have Yard B as shown on the Condominium Map appurtenant to it as Limited Common Element - Unit B. Unit C shall have Yard C as shown on the Condominium Map appurtenant to it as Limited Common Element - Unit C. The boundaries of the Limited Common Elements appurtenant to each Apartment are more particularly described in Exhibit B attached to the Declaration. The Limited Common Elements do not represent County-approved subdivided lots. Such boundary descriptions serve only to delineate the boundaries of the Limited Common Elements appurtenant to each Apartment.

2. Unit A shall access over Common Areas A-1, B-1 and C-1 for ingress, egress, road, utilities and other general purposes, as shown on the Condominium Map.

3. Unit B shall access over Common Area A-1, B-1 and C-1 for ingress, egress, road, utilities and other general purposes, as shown on the Condominium Map.

4. Unit C shall access over Common Areas A-1, B-1 and C-1 for ingress, egress, road, utilities and other general purposes, as shown on the Condominium Map.

5. Each Unit shall have its cesspool located in its respective Limited Common Element adjacent to the Unit, which cesspool shall be deemed to be a limited common element.

6. All Common Elements of the Project which are rationally related to less than all of the Apartments shall be Limited Common Elements appurtenant to the Apartment(s) to which they are so related.

EXHIBIT D

LIST OF ENCUMBRANCES

1. Real property taxes as may be due and owing. Check with the County Tax Assessor.

2. Reservation in favor of the State of Hawaii of all mineral and metallic mines.

3. PURCHASE MONEY MORTGAGE

MORTGAGOR : PETER DAVID NERVO and JOANNE C. NERVO,
 husband and wife

MORTGAGEE : EDWARD P. SIMONSON, whose wife's name is
 Edith R. Simonson

DATED : May 18, 1979
RECORDED : Liber 13763 Page 524
AMOUNT : \$30,000.00

4. The terms and provisions, including the failure to comply with any covenants, conditions and reservations, contained in the following:

INSTRUMENT : DECLARATION OF CONDOMINIUM PROPERTY REGIME
 FOR "ALOHA BAY CLUB/KAIMALU ORCHARD
 CONDOMINIUMS" PROJECT

DATED : February 5, 1998
RECORDED : Document No. 98-019095
MAP : 2681 and any amendments thereto

5. The terms and provisions, including the failure to comply with any covenants, conditions and reservations, contained in the following:

INSTRUMENT : BY-LAWS OF THE ASSOCIATION OF APARTMENT OWNERS

DATED : February 5, 1998
RECORDED : Document No. 98-019096

6. Any lien (or claim of lien) for services, labor or material arising from an improvement or work related to the land described herein.

EXHIBIT E

ESTIMATE OF INITIAL MAINTENANCE FEES
AND
ESTIMATE OF MAINTENANCE FEE DISBURSEMENTS

Estimate of Initial Maintenance Fees:

<u>Apartment</u>	<u>Monthly Fee X 12 months</u>	<u>=</u>	<u>Yearly Total</u>
A	\$30.00 X 12	=	\$360.00
B	\$30.00 X 12	=	\$360.00
C	\$30.00 X 12	=	\$360.00

STATEMENT AS TO RESERVE STUDY

The developer will maintain a reserve fund of \$1,080.00 for the first year of project operation based on an informal study of emergency repair costs which may have to be advanced by the developer for repair of common areas of the project, the only shared maintenance fee for the project. There will be no shared maintenance fees related to: 1) utilities, which will be separately metered or assessed to each unit; 2) real property taxes, which will be separately assessed to each unit owner by the County of Hawaii; and 3) insurance, which will be assumed by individual unit owners as set forth in Article VII of the project Bylaws.

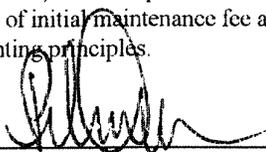
The Real Estate Commission has not reviewed the estimates of maintenance fee assessments and disbursements for their accuracy or sufficiency.

Estimate of Maintenance Fee Disbursements:

Monthly x 12 months = Yearly Total

Utilities and Services	\$ 0.00
Air Conditioning	
Electricity	
<input type="checkbox"/> common elements only	
<input type="checkbox"/> common elements and apartments	
Elevator	
Gas	
<input type="checkbox"/> common elements only	
<input type="checkbox"/> common elements and apartments	
Refuse Collection	
Telephone	
Water and Sewer	
Maintenance, Repairs and Supplies	\$30.00 X 12 months X 3 units = \$1,080.00
Building	(for maintenance and repair of common areas)
Grounds	
Management	\$ 0.00
Management Fee	
Payroll and Payroll Taxes	
Office Expenses	
Insurance	\$ 0.00
Reserves (*)	\$ 1,080.00 (for emergency repair of common areas)
Taxes and Government Assessments	\$ 0.00
Audit Fees	\$ 0.00
Other	
TOTAL:	\$ 2,160.00

I, **PETER NERVO**, as developer for **ALOHA BAY CLUB/KAIMALU ORCHARD CONDOMINIUMS**, hereby certify that the above estimates of initial maintenance fee assessments and maintenance fee disbursements were prepared in accordance with generally accepted accounting principles.



Signature

4-8-98

Date

(*) Mandatory reserves assessment and collection in effect beginning 1994 budget year. The Developer is to attach to this exhibit an explanation whether, in arriving at the figure for "Reserves", the Developer has conducted a reserve study in accordance with Section 514A-83.6, HRS, and the replacement reserve rules, Subchapter 6, Title 16, Chapter 107, Hawaii Administrative Rules, as amended. Pursuant to Section 514A-83.6, HRS, a new association created after January 1, 1993, need not collect estimated replacement reserves until the fiscal year which begins after the association's first annual meeting.

EXHIBIT F

SUMMARY OF SALES CONTRACT

The sales contract that will be used will say, in addition to the price, description and location of the apartment, and other terms and conditions under which a buyer will agree to purchase an apartment in the Project, the following:

- (a) What a buyer must do to qualify for a loan if the buyer wants a mortgage loan to cover part of the purchase price.
- (b) That a buyer's money will be held in escrow, under the terms of the escrow agreement.
- (c) That the buyer must close the purchase at a certain date and pay closing costs, in addition to the purchase price.
- (d) That in the event buyer fails to perform buyer's obligations under the sales contract (seller not being in default), seller may (1) bring an action for damages for breach of contract, (2) retain the initial deposit and all additional deposits provided for herein as liquidated damages, and (3) buyer shall be responsible for any costs incurred in accordance with the sales contract.
- (e) That in the event seller fails to perform seller's obligations under the sales contract (buyer not being in default), buyer may (1) bring an action for damages for breach of contract, (2) seek specific performance of the sales contract, and (3) seller shall be responsible for any costs incurred in accordance with the sales contract.

The sales contract will contain various other provisions which the buyer should become acquainted with.

EXHIBIT G

SUMMARY OF EXECUTED ESCROW AGREEMENT

A copy of the executed Escrow Agreement dated February 6, 1998, between Title Guaranty Escrow Services, Inc., as Escrow Agent, and Developer, as Seller, has been filed with the Commission. The Escrow Agreement provides for the deposit of Purchaser's funds pursuant to the Sales Contract and also provides for the retention or disbursement of the funds. The Escrow Agreement provides, in part, that any interest earned on money on deposit may be retained by the Developer unless the Sales Contract directs otherwise. In the event that the Sales Contract and Chapter 514A, Hawaii Revised Statutes entitle a Purchaser to a refund of Purchaser's Deposits held by the Escrow Agent, then Escrow Agent, upon instruction from the Seller, will refund Purchaser's deposits, without interest earned and less certain cancellation fees and costs (e.g., escrow cancellation fees, loan processing fees, cost of credit reports, etc.) as provided in the Sales Contract and in Chapter 514A, Hawaii Revised Statutes, as amended (hereinafter the "Condominium Law").

Purchaser's funds shall only be disbursed to the Seller upon: i) issuance by the Real Estate Commission of a final public report for the project; ii) receipt by Purchaser of copies of said final public report and the required Receipt and Notice of Right to Cancel form; iii) written notification by Purchaser to Seller that Purchaser will not rescind the sales contract, and the elapse of 48 hours since said notification; iv) written notification by Seller or Seller's attorney to the Escrow Agent that all provisions of the Condominium Law have been met; and v) written notification by the Seller to the Escrow Agent that all of the foregoing has occurred, and that Seller and Purchaser shall not rescind the sales contract.

Purchaser's deposits shall be refunded upon written notification by the Purchaser, Seller and Mortgagee to the Escrow Agent that such refund shall be made. No refund shall be made to any Purchaser unless said Escrow Agent receives written approval from the Seller and Mortgagee. In the case of default by the Purchaser, Purchaser's deposits will be treated as liquidated damages and given to the Seller, less escrow cancellation fees and after proper notice by the Escrow Agent to Purchaser of said default. By law the total amount of such cancellation fees shall not exceed Two Hundred Fifty and No/100 Dollars (\$250.00). Under the Escrow Agreement, no disbursement of funds can be made to the Seller until all provisions of the Condominium Law have been met.

It is incumbent upon a prospective Purchaser to read the executed Escrow Agreement with care.

ALOHA BAY CLUB/KAIMALU ORCHARD CONDOMINIUMS

HOUSE RULES

These House Rules contain background information that should make your daily living at **ALOHA BAY CLUB/KAIMALU ORCHARD CONDOMINIUMS** (the "Project") more meaningful and enjoyable. It must be realized that condominium living requires each resident to have appropriate respect for the needs and rights of others living in the complex. The primary purpose of these House Rules is to protect all apartment owners and other occupants, including tenants and guests, from annoyance and nuisance caused by improper use of the Project and also to protect the reputation and desirability of the Project and the enjoyment, comfort and security of all residents.

The Board of Directors of the Association of Apartment Owners (the "Board") shall be responsible for enforcing these House Rules, but such responsibility may be delegated to the Managing Agent or to the Board of Directors of the Association of Apartment Owners of **ALOHA BAY CLUB/KAIMALU ORCHARD CONDOMINIUMS** (the "Association") by the Board. All apartment owners and other occupants, tenants and their guests shall be bound by these House Rules.

These House Rules supplement but do not change the obligations of the apartment owners and all occupants, tenants and their guests as set forth in the Declaration of Condominium Property Regime ("Declaration") and By-Laws of the Association of Apartment Owners ("By-Laws") pertaining to the Project. In the event of any inconsistency between these House Rules and the Declaration or the By-Laws, the Declaration and By-Laws will prevail.

The Board shall make such other rules and regulations from time to time or amend the following House Rules as it deems necessary or desirable.

A. OCCUPANCY

1. Use of Apartments. The apartments shall be used for residential purposes only. No apartments shall be used for transient or hotel purposes, or in connection with the carrying on of any business. Time-sharing is prohibited.

2. Number of Occupants. The apartments shall be occupied and used only as private dwellings by the Owners thereof, their tenants, families, servants and social guests, and shall at all times be occupied and used as a permanent or temporary residence in accordance with applicable laws and for no other purposes except those uses allowed under the County of Hawaii Zoning Code, the laws of the State of Hawaii relating to land use districts (Chapter 205, Hawaii Revised Statutes), the Declaration, the By-Laws and these House Rules.

3. Children. A resident or guest of any apartment shall be responsible for the conduct of his children at all times, ensuring that their behavior is neither offensive to any occupant of the building nor damaging to any portion of the common elements.

B. TEMPORARY OCCUPANCY

1. Use by Owners, Tenants and Guests. Subject to the terms of each apartment owner's Condominium Conveyance Document, the Declaration and the By-Laws of the Association, an apartment owner may lease or rent his apartment or make it available to friends, but the person or persons leasing, renting or living in the apartment shall abide by the Declaration, the By-Laws, and these House Rules.

2. Conduct of Tenants, Guests and Other Persons. An apartment owner shall be responsible for the conduct of his tenants and such apartment owner's (or his tenants') guests. An apartment owner shall, upon request of the Board or Managing Agent, immediately abate and remove, at his expense, any structure, thing or condition that may exist with regard to the occupancy or use of his apartment by any such person or persons contrary to the intent and meaning of the provisions hereof. If an apartment owner is unable to control the conduct of any such person or persons to conform with the intent and meaning of the provisions hereof, such apartment owner shall, upon request of the Board or Managing Agent, immediately remove such person or persons from the premises, without compensation for lost rentals or profits or any other damage resulting therefrom.

3. Appointment of Local Agent. Apartment owners shall be responsible for designating a local agent to represent their interest if their residence is outside of the State of Hawaii or if they will be absent from the apartment for more than thirty (30) days. Such owners shall file with the Managing Agent their out-of-town address and telephone number and the address and telephone number of their local agent.

C. USE OF COMMON AND LIMITED COMMON AREAS

The common area and limited common areas shall be used for their intended purposes only.

D. NOISE AND NUISANCES

1. Noise and Nuisances Prohibited. No nuisance shall be allowed in the Project nor shall any use or practice be allowed which is improper or offensive in the reasonable opinion of the Board or which is in violation of the By-Laws or these House Rules or which unreasonably interferes with or is an unreasonable annoyance to the peaceful possession or proper use of the Project by other apartment owners or occupants.

2. Specific Rules.

a. Excessive Noise and Objectionable Odors Prohibited. Residents and other occupants of the apartments shall avoid unreasonably excessive noise of any kind at any time and shall

not cause or permit any unreasonably disturbing noise or objectionable odors to emanate from their apartments.

b. Hours for Workmen. No workmen will be allowed in any buildings before 8:00 a.m. or after 7:00 p.m. except in an emergency.

c. Hours for Reduced Volume for Radios and Stereos. Radios, TV's, stereos, etc. in the apartments must be played at reduced volume after 10:00 p.m. and before 8:00 a.m.

d. Departure of Guests; Minimizing Noise. When guests of any apartment are leaving at night, noise must be kept at a minimum.

e. Reporting of Excessive Noise. Excessive noise at any time should be reported to the Board.

3. Soliciting Prohibited. No soliciting, whether commercial or religious, is allowed in the Project. Report all solicitations to the Board.

E. SAFETY CONSIDERATIONS

1. Flammable or Dangerous Liquids. Inflammable fluids such as gasoline, kerosene or explosive materials or articles deemed hazardous to life, limb or property will not be stored in storage lockers or brought into buildings.

2. Rules of Governmental Authority. Each apartment owner, tenant, or guest shall at all times observe and maintain all laws, ordinances, rules and regulations now and hereafter made by any governmental authority or the Association applicable to the use of the Project.

3. Right of Entry in Favor of Association. Every apartment owner, tenant, or guest hereby grants right of entry to the Managing Agent, and other persons authorized by the Board, in any event of an emergency originating in or threatening such apartment, whether or not such owner or occupant is present at the time. Keys must be furnished to the Managing Agent if requested by the Board.

F. AESTHETIC CONSIDERATIONS

1. Cleanliness; Attractive Appearance of Apartments and Lanais. All owners and tenants are responsible for the cleanliness and maintenance of their apartments and lanai areas. Said areas shall be maintained in a neat, attractive and sanitary condition.

G. BUILDING REPAIRS, MAINTENANCE, AND MODIFICATIONS

1. Repairs and Maintenance

a. Apartment Owner's Duty to Repair and Maintain. Every apartment owner from time to time and at all times shall perform promptly all repair and maintenance work within his apartment, the omission of which would adversely affect any common element or any other apartment, and shall be responsible for all loss and damage caused by his failure to do so.

2. Modifications and Additions. All modifications or additions must receive the prior written permission of the Board.

a. Signs. Except as permitted by the Board, owners or tenants shall not place any signs in or on buildings or in or upon other common elements.

b. Board May Require Plans and Specifications. The Board may require the presentation of plans and specifications prepared by a registered architect or engineer for the alteration prior to approval.

c. Work Must be Performed by Licensed Contractors Where Common Elements May be Affected. Any alteration work which may affect the common elements shall be performed by a licensed contractor approved in writing by the Board or Managing Agent approved in writing by the Board or Managing Agent.

I. VIOLATIONS OF THESE RULES

1. Reporting Violations and Damages

a. Reporting of Violations. All corrective actions regarding violations of the House Rules and damages to the common elements or common areas will be enforced by the Board and should be reported promptly to the Board, the Managing Agent or resident manager.

b. Damage to Common Areas. Damages to common elements or common areas shall be surveyed by the Board or the Managing Agent at the direction of the Board and the cost of repair or replacement and any legal fees incurred may be assessed by the Board against the person or persons responsible, including, but not limited to, any apartment owner for damages caused directly or indirectly by his tenants or such apartment owner's (or his tenants') family members, domestic servants, or guests.

2. The Violation of Any of These Rules and Regulations Shall Give the Board, the Managing Agent or Their Agents the Right to:

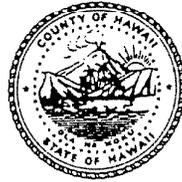
a. Right to Enter Apartments. Enter the apartment and/or limited common elements in which, or as to which, such violation or breach exists and to summarily abate and remove, at the expense of the defaulting apartment owner (whether or not caused by the apartment owner or any person for whose conduct the apartment owner may be responsible), any structure, thing or condition that may exist therein contrary to the intent and meaning of the provisions hereof and the Board or the Managing Agent shall not thereby be deemed guilty in any manner of trespass; and/or

b. Right to Institute Legal Proceedings. To enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any such breach, and all costs thereof, including attorneys' fees, shall be borne by the defaulting apartment owner (whether caused by the apartment owner or by any person for whose conduct the apartment owner may be responsible).

I. AMENDMENTS

1. These Rules and Regulations may be amended only by a majority of the Board at a duly called meeting of the Board.

Stephen K. Yamashiro
Mayor



Virginia Goldstein
Director
Russell Kokubu
Deputy Director

County of Hawaii
PLANNING DEPARTMENT

25 Aupuni Street, Room 109 • Hilo, Hawaii 96720-4252
(808) 961-8288 • Fax (808) 961-9615

October 7, 1997

Robert D. Triantos, Esq.
Carlsmith Ball Wichman Case & Ichiki
P.O. Box 686
Hilo, HI 96721-0686

Dear Mr. Triantos:

Condominium Conversion
Aloha Bay Club Condominiums
Tax Map Key: 8-2-8.52

In response to your letter, we have the following to offer:

1. The subject 130,682 square feet parcel is zoned Agricultural - 5 acres (A-5a) by the County and designated Agricultural by the State Land Use Commission.
2. Our records indicate that building permits taken out for three dwellings and two additions to the dwelling were closed as final inspections were recorded by the Department of Public Works, Building Division.
3. Variances were not required to achieve compliance with the zoning and building ordinances and codes.
4. Our records do not include any reference to non-conforming uses/structures on this property. However, the lot is non-conforming in size with respect to the minimum 5 acres required for the zone district.
5. Chapter 205, HRS does not authorize residential dwellings as a permissible use in the Agricultural District as classified by the State Land Use Commission, unless the dwelling is related to an agricultural activity or is a "Farm Dwelling."

EXHIBIT I

Robert D. Triantos, Esq.
Carlsmith Ball Wichman Case & Ichiki
Page 2
October 7, 1997

A "Farm Dwelling" is defined in Section 205-4.5(a)(4) as "a Single Family Dwelling located on and used in conjunction with a farm, including clusters of Single-Family Farm Dwellings permitted within agricultural parks developed by the State, or where agricultural activity provided income to the family occupying the dwelling." All property buyers must comply with Chapter 205, HRS.

6. The Hawaii County Code, Chapter 25, Zoning, Section 25-5-77(b),(c) and (1) states the following:
 - (b) One (1) Single-Family Dwelling or one (1) farm dwelling shall be permitted on any building site in the A district. A Farm Dwelling is a Single-Family Dwelling that is located on or used in connection with a farm or if the agricultural activity provides income to the family occupying the dwelling.
 - (c) Additional Farm Dwellings may be permitted in the "A" district only upon the following conditions:
 - (1) A Farm Dwelling agreement for each additional Farm Dwelling, on a form prepared by the director, shall be executed between the owner of the building site, any lessee having a lease on the building site with a term exceeding one (1) year from the date of the farm dwelling agreement, and the County. The agreement shall require the dwelling to be used for farm-related purposes.

All property buyers must comply with Chapter 25 of the Hawaii County Code.

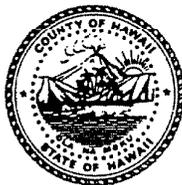
Should you have questions, please do not hesitate to contact this office at 961-8288.

Sincerely,


for VIRGINIA GOLDSTEIN
Planning Director

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Stephen K. Yamashiro
Mayor



Virginia Goldstein
Director
Norman Olesen
Deputy Director

County of Hawaii

PLANNING DEPARTMENT

25 Aupuni Street, Room 109 • Hilo, Hawaii 96720-4252
(808) 961-8288 • Fax (808) 961-9615

CERTIFIED MAIL

July 7, 1995

Ms. Anna M. Smith
P.O. Box 1365
Kealahou, HI 96750

Dear Ms. Smith:

Joanne Nervo - Farm Dwellings
Tax Map Key: 8-2-008: 052

Thank you for your letter dated June 26, 1995 received by our office on July 5, 1995 relative to the subject matter.

We offer the following for your information:

1. March 14, 1995, the subject property was visited by Marc Smith, Historic Preservation Division staff archaeologist followed with a letter dated April 17, 1995 from DLNR confirming site inspection. Site inspection also confirmed "no significant historic site remain in the parcel."
2. March 14, 1995, Two Farm Dwelling Notices were signed by Joanne Nervo and two Building Permits approved by the Planning Department.
3. March 30, 1995, a Grubbing Permit No. 004010 was issued on April 4, 1995. The DLNR approval for this action was approved on March 30, 1995.
4. April 5, 1995, One Farm Dwelling Notice was sign by Joanne Nervo and a Building Permit approved by the Planning Department.
5. May 1, 1995, Building Permit Nos. 955380 and 955381 for two farm dwellings were issued.

We have also enclosed a copy of the signed Farm Dwelling Notice for your use and information. Please note "Farm Dwelling" definition and the penalties if not complied with.

EXHIBIT J

Ms. Anna M. Smith
PAge 2
July 7, 1995

With regard to the grading questions, these are under the jurisdiction of the Department of Public Works, Engineering Division. Any violations of grading should be referred to their office. Please contact Thomas Pack at 329-3193 at the Department of Public Works, Engineering Division for any alleged grading violations.

Should you have any further questions, please feel welcome to contact our office.

Sincerely,


VIRGINIA GOLDSTEIN
Planning Director

RHY:rld
1398Q

Enclosure

xc: West Hawaii office