CONDOMINIUM PUBLIC REPORT

Prepared & Issued by:

Developer Kona Properties, a California corporation
Address c/o Tom C. Leuteneker, One Main Plaza, Suite 400, Wailuku, Maui, Hawaii 96793

Project Name (*): The Pio Ocean View Apartments
Address: 509 Pio Place, Wailuku, Maui, Hawaii 96793

Registration No. 5906

Effective date: June 30, 2006
Expiration date: July 30, 2007

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.

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 the Declaration

This material can be made available for individuals with special needs. Please call the Senior Condominium Specialist at 586-2643 to submit your request.

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:

TABLE OF CONTENTS

		Page
Preparation of this Report		1
Expiration Date of Reports		1
Type of Report		1
Disclosure Abstract		2
Summary of Changes from Earlier Public Reports		2
Table of Contents		3
General Information on Condominiums		4
Operation of the Condominium Project		4
I.	PERSONS CONNECTED WITH THE PROJECT	5
	Developer	
	Attorney for Developer	
	General Contractor	
	Real Estate Broker	
	Escrow Company	
	Condominium Managing Agent	
II.	CREATION OF THE CONDOMINIUM; CONDOMINIUM DOCUMENTS	
	A. Declaration	6
	B. Condominium Map (File Plan)	6
	C. Bylaws	6
	D. House Rules	7
	E. Changes to Condominium Documents	7
III.	THE CONDOMINIUM PROJECT	
	A. Interest to be Conveyed to Buyer	8
	B. Underlying Land	9
	C. Buildings and Other Improvements	10
	D. Common Elements, Limited Common Elements, Common Interest	13
	E. Encumbrances Against Title	14
	F. Construction Warranties	15
	G. Status of Construction	16
	H. Project Phases	16
IV.	CONDOMINIUM MANAGEMENT	
	A. Management of the Common Elements	17
	B. Estimate of Initial Maintenance Fees	17
	C. Utility Charges for Apartments	17
V.	MISCELLANEOUS	
	A. Sales Documents Filed with the Real Estate Commission	18
	B. Buyer's Right to Cancel Sales Contract	18
	C. Additional Information Not Covered Above	20
	D. Signature of Developer	21
EXHIBIT A	Reservation of Rights	
EXHIBIT B	Apartment Types, Quantity and Area	
EXHIBIT C	Architectural, Structural, Mechanical and Electrical Observation Reports	
EXHIBIT D	Common Elements	
EXHIBIT E	Limited Common Elements	
EXHIBIT F	Common Interests	
EXHIBIT G	Encumbrances Against Title	
EXHIBIT H	Maintenance Fees	
EXHIBIT I	Summary of Sales Contract	
EXHIBIT J	Summary of Escrow Agreement	

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: Kona Properties
Name*
c/o Tom C. Leuteneker
One Main Plaza, Suite 400
Wailuku, Maui, Hawaii 96793
Business Address

Phone: (808) 242-4535 (Business)

Names of officers and directors of developers who are corporations; general partners of a partnership; partners of a Limited Liability Partnership (LLP); or manager and members of a Limited Liability Company (LLC) (attach separate sheet if necessary):

Tom C. Leuteneker, President and Director; Christopher C. Leuteneker, Vice President and Director; Erik J. Leuteneker, Secretary, Treasurer and Director.

Real Estate Broker*: Clearly Maui, Inc.
Name
Attn: Allen T. Yap, PB
635 Kenolio Road
Kihei, Maui, Hawaii 96753
Business Address

Phone: (808) 874-6406 (Business)

Escrow: Title Guaranty Escrow Services, Inc.
Name
Attn: Nanette Kwon
80 Puunene Avenue
Kahului, Maui, Hawaii 96732
Business Address

Phone: (808) 871-2200 (Business)

General Contractor*: None
Name

Business Address

Phone: (Business)

Condominium Managing Agent*: Commercial Properties of Maui Management, Inc.
Name
Attn: Janine Kramer
1962B Wells Street
Wailuku, Maui, Hawaii 96793
Business Address

Phone: (808) 243-8600 (ext. 2) (Business)

Attorney for Developer: James H. Case, Esq.
Name
Carlsmith Ball LLP
1001 Bishop Street, Suite 2200
Honolulu, Hawaii 96813
Business Address

Phone: (808) 523-2500 (Business)

*For Entities: Name of corporation, partnership, Limited Liability Partnership (LLP), or Limited Liability Company (LLC)

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. 2006-017680
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]: Amended and Restated Declaration of Condominium Property Regime of the Pio Ocean View Apartments dated May 19, 2006, recorded in the Bureau of Conveyances as Document No. 2006-096511.

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. 4156

[ ] 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]: Amended and Restated Condominium Map dated January 3, 2005 recorded in the Bureau of Conveyances as Condo Map No. 4156.

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. 2006-017681
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]: Not applicable

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 [X] Adopted [ ] 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%*	75%
Bylaws	65%	65%
House Rules	---	Board vote

*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:

See **Exhibit A** attached hereto.

III. THE CONDOMINIUM PROJECT

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

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

[ ] Leasehold or Sub-leasehold: 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 Sub-leaseholds:

[ ] Buyer's sublease may be canceled if the master lease between the sublessor 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 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 of 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: 509 Pio Place, Wailuku, Hawaii 96793 Tax Map Key (TMK): (2) 3-8-037-043

[ ] Address [ ] TMK is expected to change because not applicable

Land Area: 20,801 [x] square feet [ ] acre(s) Zoning: Apartment

Fee Owner: Kona Properties
Name
c/o Tom C. Leuteneker
One Main Plaza, Suite 400
Wailuku, Maui, Hawaii 96793
Address

Lessor: not applicable
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: 1 Floors Per Building: 2

[ ] Exhibit _____ contains further explanations.

3. Principal Construction Material:
[X] Concrete [ ] Hollow Tile [ ] Wood

[ ] Other _____

4. Uses Permitted by Zoning:

		No. of Apts.	Use Permitted By Zoning	
[X]	Residential	16	[X] Yes	[ ] No
[ ]	Commercial		[ ] Yes	[ ] No
[ ]	Mix Res/Comm		[ ] Yes	[ ] No
[ ]	Hotel		[ ] Yes	[ ] No
[ ]	Timeshare		[ ] Yes	[ ] No
[ ]	Ohana		[ ] Yes	[ ] No
[ ]	Industrial		[ ] Yes	[ ] No
[ ]	Agricultural		[ ] Yes	[ ] No
[ ]	Recreational		[ ] Yes	[ ] No
[X]	Other (Resort)*	3	[X] Yes	[ ] No

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

*Three non-residential apartments are located on the premises and will be owned by the association of apartment owners.

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: Pets and other animals, except for seeing-eye dogs and other service animals, may be by the House Rules; current House Rules do not permit pets.

[ ] Number of Occupants: _____

[X] Other: See Declaration Section F. Timeshare use, rentals for less than 30 days, and non-residential use are prohibited. See other restrictions on page 20.

[ ] There are no special use restrictions.

6. Interior (fill in the appropriate numbers):

Elevators: 0 Stairways: 3 Trash Chutes: 0

Apt. Type	Quantity	BR/Bath	Net Living Area (sf)*	Net Other Area (sf)	(Identify)
			See **Exhibit B**		

Total Number of Apartments: 19

* 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 shown here because a different method of determining the floor area may have been used.

Boundaries of Each Apartment:
As set forth in Section B.2 of the Declaration, each Apartment consists of the improvements, fixtures and space located within the undecorated or unfinished surfaces of each Building's perimeter walls, interior load-bearing walls, floors and ceilings. Purchasers should review Declaration Section B.2 for a full description of what is and what is not included in each Apartment.

Permitted Alterations to Apartments:
Generally, alterations to Apartments are permitted only with the prior approval of the Project's Board of Directors. All purchasers should review the restrictions, requirements and conditions for Apartment alterations which are contained in Section M.2 of the Declaration and Section J.6 of the Bylaws.

Apartments Designated for Owner-Occupants Only: Not applicable

7. Parking Stalls:

Total Parking Stalls: 16

	Regular Covered	Regular Open	Compact Covered	Compact Open	Tandem Covered	Tandem Open	TOTAL
Assigned (for each unit)	16	0	0	0	0	0	0
Guest	0	0	0	0	0	0	0
Unassigned	0	0	0	0	0	0	0
Extra for Purchase	0	0	0	0	0	0	0
Other: _____	0	0	0	0	0	0	
Total Covered & Open:	16	0			0		16

Each apartment will have the exclusive use of at least one (1) 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 [X] Storage Area [ ] Recreation Area

[X] 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. [X] Violations will not be cured.

[X] Violations and costs to cure are listed below: [ ] Violations will be cured by _____ (Date)

HDL Engineering Inc.'s electrical report dated April 14, 2006 refers to (i) the lack of smoke detectors in the bedrooms and (ii) the units having no GFI protected receptacles in the kitchen or bathrooms. These items will not be cured by the developer, but the developer estimates that the cost to cure the GFI receptacles would be approximately $100 per receptacle, and $15-$25 per smoke detector.

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):

NO REPRESENTATIONS ARE MADE WITH RESPECT TO THE USEFUL LIFE OF THE STRUCTURAL COMPONENTS AND MECHANICAL AND ELECTRICAL INSTALLATIONS. See consultants' reports and Developer's statement attached as Exhibit C for a description of the current condition of The Pio Ocean View Apartments.

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 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 limitation 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.

*The parking stalls for the Project are considered to be "legal non-conforming", but the Project met the parking requirements at the time of construction.

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 D

[ ] 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 use them, as described in the Declaration, are:

[X] described in Exhibit E

[ ] as follows:

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:

[X] described in Exhibit F

[ ] 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 G* describes the encumbrances against the title contained in the title report dated January 12, 2006 and issued by Title Guaranty of Hawaii, Inc.

*Any existing mortgages and ancillary encumbrances must be released before the developer conveys the apartment to a buyer.

Blanket Liens:

A blanket lien is an encumbrance (such as a mortgage) on the entire condominium project that secure 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.

Type of Lien	Effect on Buyer's Interest and Deposit if Developer Defaults or Lien is Foreclosed Prior to Conveyance
1. Mortgage and Security Agreement in favor of Bank of Hawaii, recorded as Document No. 2004-181394. 2. Assignment of Rents in favor of Bank of Hawaii, recorded as Document No. 2004-181395.	The Buyer's contract will be subject to cancellation and the Buyer may not be able to purchase the apartment, but all deposits made by Buyer will be refunded, less escrow cancellation fees.

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:

There are no warranties regarding the building and other improvements.
Sold "as-is".

2. Appliances:

There are no warranties regarding the appliances.
Sold "as-is".

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

The Pio Ocean View Apartments were constructed in 1969.

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:

[X] not affiliated with the Developer
[ ] self-managed by the Association of Apartment Owners
[ ] the Developer or 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 H 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:

[ ] None [X] Electricity (X Common Elements only __ Common Elements & Apartments)

[ ] Gas (__ Common Elements only __ Common Elements & Apartments)

[X] Water [X] Sewer [ ] Television Cable

[X] Other refuse collection, landscaping/janitorial

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:

[N/A] Notice to Owner Occupants

[X] Specimen Sales Contract
Exhibit I contains a summary of the pertinent provisions of the sales contract.

[X] Escrow Agreement dated January 13, 2006
Exhibit J 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 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 sale 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 _____

Copies of the condominium and sales documents and amendments made by the developer are available for review through the developer or through the developer's sales agent, if any. The Condominium Property Regime law (Chapter 514A, HRS) and Hawaii Administrative Rules (Chapter 107) are available online. Please refer to the following sites:

Website to access official copy of laws: www.capitol.hawaii.gov
Website to access unofficial copy of laws: www.hawaii.gov/dcca/hrs
Website to access rules: www.hawaii.gov/dcca/har

This Public Report is a part of Registration No. 5906 filed with the Real Estate Commission on January 30, 2006 .

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C. Additional Information Not Covered Above

1. Use Restrictions: The following provisions are use restrictions of the Project, which can be found in the Declaration:

Uses Other Than Residential Use Prohibited. The apartments shall be occupied and used only as private dwellings by the respective apartment owners thereof, their tenants, families, domestic servants and social guests and for no other purpose, and any such use or purpose must be in accordance with legal requirements (including zoning and land use requirements), and in no event shall be used as retail or wholesale stores, service shops, light industrial shops nor for any other commercial purposes. The apartments shall also not be used for timesharing, as such term is defined in Hawaii Revised Statutes, Chapter 514E. The apartments may not be rented or used for transient or hotel purposes, which are defined as rental for any period less than thirty (30) days. Subject to the foregoing limitations regarding residential use and to the prohibitions on timesharing and transient or hotel uses, the apartment owners shall have the absolute right to lease their apartments subject to all provisions of the Declaration, the Bylaws, and the House Rules; provided, however, that all leases shall be in writing, signed by the apartment owner or apartment owner's representative and the tenant.

Prohibition of Unauthorized Alteration or Decoration to the Exterior and Common Areas of the Project. No apartment owner shall, without the written approval and consent of the Board, place or permit the attachment, hanging, projection or protrusion of any object, garments or materials of any kind from the roofs, exterior walls, windows, lanais, or doors of the apartments, or the placement of any other matter or decoration within or without the apartment which shall be visible from the exterior of the project, nor shall any apartment owner change or alter any of the exterior glass windows, in any way, nor shall any apartment owner change the exterior appearance of the project in any manner.

Lanais. No apartment owner shall place any object (other than appropriate plants or outdoor lanai furniture as determined by the Board) on any lanai, without first having received the approval of the Board and the project architect. In order to preserve the uniform appearance of the project, apartment owners may not paint, plaster, tile, finish, or otherwise decorate the exterior surfaces of the walls, railings, floors or ceilings of any lanai. Any repairs to the lanai railings shall be administered by the Association through the contractor or contractors selected by the Board for such purpose. Repair or replacement of the lanai, lanai railings, or lanai slabs resulting from intentional or negligent misuse of the lanai area shall be at the apartment owner's expense. All other lanai railing and slab replacements or repairs shall be a common expense. Notwithstanding any other provision in the Declaration, apartment owners are strictly prohibited from enclosing any lanai appurtenant to any apartment; no such enclosure shall be permitted under any circumstances.

2. Hazardous Materials Disclosure: The developer neither prepared nor commissioned a Phase 1 Environmental Site Assessment and makes no representations or warranties whatsoever. The developer has made no independent investigation as to asbestos or other hazardous substances in the apartments or in, under or around the project, including but not limited to, radioactive materials, organic compounds known as polychlorinated biphenyls, chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic substances, and any and all other substances or materials defined as or included in the definition of "hazardous substances", "hazardous wastes", "Hazardous materials" or "toxic substances" under, or for the purposes of, hazardous materials laws. Buyer acknowledges that in light of the age of the project, there may be asbestos and other hazardous substances in the apartments, or in, under or around the project. Because of the possible presence of such substances, Buyer should have the apartment inspected to determine the extent (if any) of such contamination and any necessary remedial action. The developer will not correct any defects in the apartments or in the project or anything installed or contained therein and Buyer expressly releases the developer from any liability to Buyer if any hazardous materials are discovered.

3. Lead Paint Disclosure: Pursuant to federal law, 42, U.S.C. 4852(d), the Residential Lead-Based Paint Reduction Act, "Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence, quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller's possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase."

4. Architect's Notes:

(a) Existing parking stalls and driveways may deviate from parking plan approved zoning layout.

(b) Driveways and parking stalls may not meet current width requirement due to irregular paint striping.

(c) Floor plans are based on observation of one similar apartment of each type. There may be alterations or renovations that may cause differences from what is shown on the Condominium Map.

5. Existing Building: The building was constructed in 1969. Please see Exhibit C for architectural, structural, mechanical and electrical reports.

D. The developer declares subject to the penalties set forth in Section 514A-49(b) that this project is in compliance with all county zoning and building ordinances and codes, and all other county permitting requirements applicable to the project, pursuant to Act 251 (SLH 2000) [Section 514A-1.6] (The developer is required to make this declaration for issuance of an effective date for a final public report.)

E. The developer hereby certifies that all 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.

Kona Properties, a California corporation
Printed Name of Developer

By: _____ 6/28/2006
Duly Authorized Signatory* Date

TOM LEUTENEGER President
Printed Name & Title of Person Signing Above

Distribution:

Department of Finance, County of Maui

Planning Department, County of Maui

Must be signed for a: corporation by an officer; partnership or Limited Liability Partnership (LLP) by the general partner; Limited Liability Company (LLC) by the manager or member; and for an individual by the individual.

EXHIBIT A

RESERVATIONS OF RIGHTS

The Developer has not reserved any right with respect to the Project including, without limitation, the right to make additions, modifications or deletions to the Project, to merge the Project or to develop the Project in phases, except as follows (until such time as all of the residential Apartments within the Project are conveyed from the Developer to an Owner):

Reservation of Power to Grant Easements. The Developer reserves to itself the non-exclusive right to grant from time to time within the Common Elements (other than the Limited Common Elements appurtenant to Apartments of which the Association is not the Owner), easements and rights-of-way over, under, and across the Common Elements (other than the Limited Common Elements appurtenant to Apartments of which the Association is not the Owner) for utilities, sanitary and storm sewers, drains, cable television, satellite television and other communication services, and other utility services for two (2) or more Apartments and the right to relocate, realign or cancel the same, provided that such easements, their use, relocation, realignment, or cancellation shall not materially impair or interfere with the use of any Apartment. At such time as may be contemplated by one or more Operating Agreements between Developer and the Association, such reserved right shall be assigned to the Association.

Required Amendments. The Developer reserves the right to make, at any time prior to the recordation of an Apartment Deed for the last Apartment in the Project, amendments to the Declaration, the Bylaws, or the Condominium Map that are required by law, by the Real Estate Commission, by a title insurance company, by a mortgage lender, or by any governmental agency (including the VA, HUD, FNMA and/or FHLMC), provided that such amendments shall not change the Common Interest appurtenant to an Apartment or substantially change the design, location or size of any Apartment for which an Apartment Deed has been recorded. At such time as may be contemplated by one or more Operating Agreements between Developer and the Association, such reserved right shall be assigned to the Association.

EXHIBIT B
APARTMENT TYPES, QUANTITY AND AREA

APT. NO.	QUANTITY	BR/BATH	NET LIVING AREA (sf)*	NET OTHER AREA (sf)	(IDENTIFY)
101	1	1/1	572	133	Lanai
102	1	1/1	572	133	Lanai
103	1	1/1	572	133	Lanai
104	1	1/1	572	133	Lanai
105	1	1/1	572	133	Lanai
106	1	1/1	572	133	Lanai
107	1	1/1	572	133	Lanai
108	1	1/1	572	133	Lanai
201	1	1/1	572	133 + 70	Two Lanai Areas
202	1	1/1	572	133 + 70	Two Lanai Areas
203	1	1/1	572	133 + 70	Two Lanai Areas
204	1	1/1	572	133 + 70	Two Lanai Areas
205	1	1/1	572	133 + 70	Two Lanai Areas
206	1	1/1	572	133 + 70	Two Lanai Areas
207	1	1/1	572	133 + 70	Two Lanai Areas
208	1	1/1	572	133 + 70	Two Lanai Areas
A	1	N/A	N/A	230	First floor laundry room
B	1	N/A	N/A	230	Second floor laundry room
C	1	N/A	N/A	60	Storage Unit, First floor

* 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 shown here because a different method of determining the floor area may have been used.

EXHIBIT C
ARCHITECTURAL, STRUCTURAL, MECHANICAL AND ELECTRICAL OBSERVATION REPORTS

(See attached pages)

Purchasers should familiarize themselves with the condition of the property by reading the attached reports with care.

ERNEST M. UMEMOTO AIA
Architect, Inc.

4/17/06

Kona Properties
c/o James H. Case, Esquire

Subject: Pio Ocean View

ARCHITECTURAL OBSERVATION NOTES:

The 16 apartment Pio Ocean View was visited on 10/28/05 and cursory Architectural observations were made. Only one apartment on each of the two floors were entered. There were no permit drawings, construction documents or maintenance records. The purpose of this report is not to be finite as to the condition of the project, but to note items of concern (or for future consideration) of readily visible architectural items.

Site and parking area:

- The site is very hilly, but the ground floor is level with no swales evident to address storm water.
- The land behind the building is extremely hilly, with uncontrolled brush, shrubs and trees that could contribute to a fire hazard.
- The structural footing on the rear of the building may not be safe from being undermined by erosion.
- The two sides of the building is fenced off from the hilly rear lot with chain-link gates that do not close well and are not locked. At night, a stranger may unknowingly walk off the path and fall down the hilly slope. This could be also an attractive nuisance that should be secured from children and guests.
- There may not be adequate street lights in front of the project.
- The project's ground lighting at the driveway entry are broken.
- No back flow preventer to water connection.
- No fire standpipe.
- There is no planned and maintained landscaping.
- No accessible parking, loading, and guest parking.
- No trash dumpster enclosure.
- No fenced children play lawn area.

Building exterior:

- No fire exit signs.
- Lighting level over exit ways and stairs may not be sufficient.
- Stair not sufficiently wide enough on the two sides of the building.

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ERNEST M. UMEMOTO AIA
Architect, Inc.

- Stair handrail does not meet code requirements.

- Stair railing must extend past the last riser.
- Tire bumpers reduce 1st floor walkway to less than 3' wide.
- Parking on 1st floor abuts bedroom with no occupancy separation. The code require fire-rated windows and doors.
- No roof access ladder and hatch.
- Threshold varies on entry doors off 1st and 2nd floors.
- Entry door and frames are not fire rated.
- No dryer vent.
- Lanai over parking is not structurally designed for any occupancy or loading.
- Solar collectors over middle stair not tied down for high winds.
- Signs of roof leak were reported. When reproofing, thermal insulation will be required.
- The first floor guardrail was only 2'-11" high. It should be 3'-6" high.
- The guardrail openings are 4-1/2" and wider. Current code require 4" maximum, but the larger opening may have been grandfathered by previous codes. Building management should consider this as a priority for future up-grade due to the safety hazard to infants and small children.
- Roof leak observed at first floor lanai ceiling.
- The second floor lanai do not run to the exterior edge. Instead, they slope to the side so that drainage relies on the neighbor maintaining a clear flow channel. This is not a good design and in case of overflow still should have a scupper at a lower level than the floor line.
- The lanai curb had damage from spalling. As corrosion of steel rebar progresses, water leaks to the first floor ceiling below will increase.
- Gutter downspout was observed as disconnected to gutter.

Building interior:

- No smoke detector and fire extinguisher in both laundries.
- Apartments seen had smoke detector only in hall by kitchen. Code requires UL-labeled smoke detector on both sides of bedroom door.
- Bedroom window do not meet minimum size and maximum sill height for emergency fire escape.
- All kitchen and bathroom convenience outlets within 6' of water source must be GFIC. None were observed.
- Wall behind and on side-wall of range must be of non-flammable material. In the apartment visited, this was lacking.
- Where there are wall cabinets above the range, a metal hood is required. In the apartment visited, this was lacking.
- The building is not designed for every apartment to have individual air-conditioning.

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Architect, Inc.

- The building is not designed for every apartment to have individual washer and dryer appliance.

The building is in a coastal zone and will have higher weathering. As a building ages, maintenance needs will increase leading to a need for a preventive maintenance program. Currently, the building functions well for its intended purpose.

Yours truly,

Ernest M. Umemoto AIA

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HAWAII
ENGINEERING
GROUP, INC.

Consulting Civil & Structural Engineers

April 15, 2006

Attn: James H. Case, Esquire
Kona Properties

Re: Pio Oceanside Estates
Kahului, Maui

Structural Engineering Observation Report

A site visit was held to note cursory observations of the Pio Oceanside Estates apartment building structure on April 4, 2006. The inspection involved a walk-through observation of the building structure. The observations were limited to the following areas only:

1. Unit 104
2. Unit 206
3. Ground Floor Laundry
4. Building Exterior

No calculations or testing of any kind was performed. Architectural, Mechanical, Electrical, and other nonstructural aspects were not addressed. Compliance of design with the current building codes or the building code it was designed under was not checked.

No drawings for the apartment complex were made available for review.

The Apartment building comprises of a 2 storied structure. In all there are 16 units, eight on the ground floor and 8 on the second floor. According to the building manager the building structure was built in late 1960's.

The building is of reinforced concrete and concrete masonry block wall construction. Ground floor consists of poured in place slab on grade. The floor and roof slabs are poured in place reinforced concrete supported by plastered reinforced concrete block masonry walls. These bearing walls also form the lateral load resisting system for the building structure. All interior walls inside the units are non load bearing dry wall construction.

Observations:

1. Concrete cracks were observed in the concrete slab on grade in the lanai of unit #104 (see photo 1).

1088 Bishop St., suite 2506, Honolulu, Hawaii 96813 - Tel: (808) 533-2092 Fax: (808) 533-2059
Email: heg@hawaiiengineering.net

2. Moisture damage was also observed in the ceiling of unit #104. It appears that moisture is penetrating thru the slab in areas where there is balcony of the unit directly above it (see photo 2).

3. Cracks were observed in the balcony of unit #206and the roof drain pipe was broken(see photo 6).

4. Drainage problem were also observed in the balcony of unit #206 and the adjacent units. It seems that there is no proper balcony drainage in place allowing the water to pond and then seep to the floor below (see photo 3).

5. Ponding of water and lack of proper waterproofing has caused severe deterioration of the balcony curb due to corrosion of reinforcement in unit #206 (see photo 4)

6. Minor dry wall cracking was also observed in the interior walls of unit #206 (see photo 5).

7. No structural damage was observed in the laundry area.

8. The ground floor parking area asphalt concrete pavement is deteriorated and ponding of water was also observed in the parking area (see photo 6).

9. No significant damage was observed on the building exterior.

Conclusions and Recommendations:

The drainage and waterproofing of the balconies on the second floor is the main issue that must be addressed and remedied as it is causing damage to the units below as well as second floor balcony structure. This can be achieved by giving the balcony a proper slope away from the unit and installation of new drainage pipes to dispose the water away from the building.

The waterproofing of the second floor balconies and repair of the deteriorated concrete curb must be undertaken as soon as possible to avoid further deterioration of the structure.

The broken roof drain should be repaired

Drainage of the ground floor parking area should be addressed prior to repairs to the ac paving

We recommend that all repairs be done under the supervision of a licensed structural engineer by a licensed contractor with experience in concrete repairs and waterproofing of structures.

Maintenance is important for the upkeep of the buildings. In general, the building appears to be in good condition. The buildings should continue to perform well with regular maintenance.

This report does not address portions of the building other than those areas mentioned, nor does it provide any warranty either expressed or implied for any portion of the existing building. If there are any comments or questions on any item above, please do not hesitate in calling.

Submitted by: _____

Ather R. Dar, P.E., President
Hawaii Engineering Group, Inc.

Photo 1: Concrete cracks in floor of unit #104

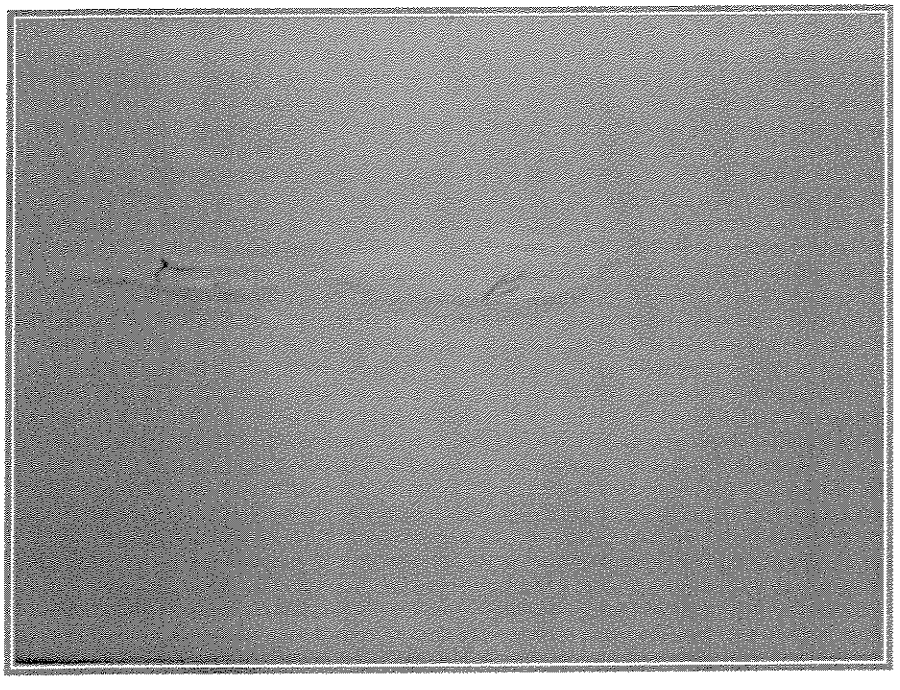

Photo 2: Moisture damage in ceiling of unit #104

Photo 3: Ponding of water and drainage problem of unit #206

Photo 4: Deteriorated concrete curb - unit #206

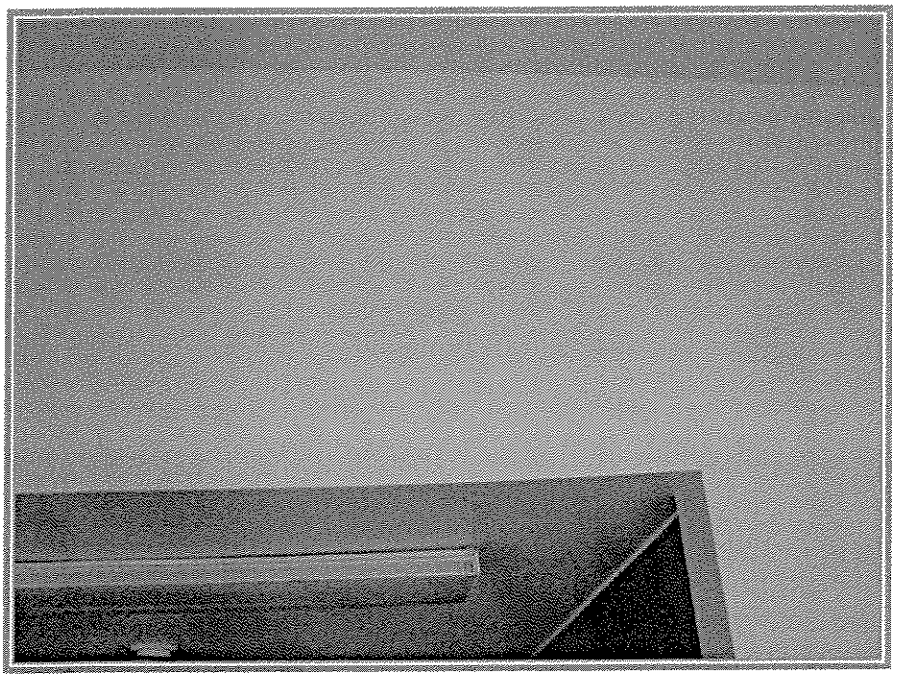

Photo 5: Dry wall crack in unit #206

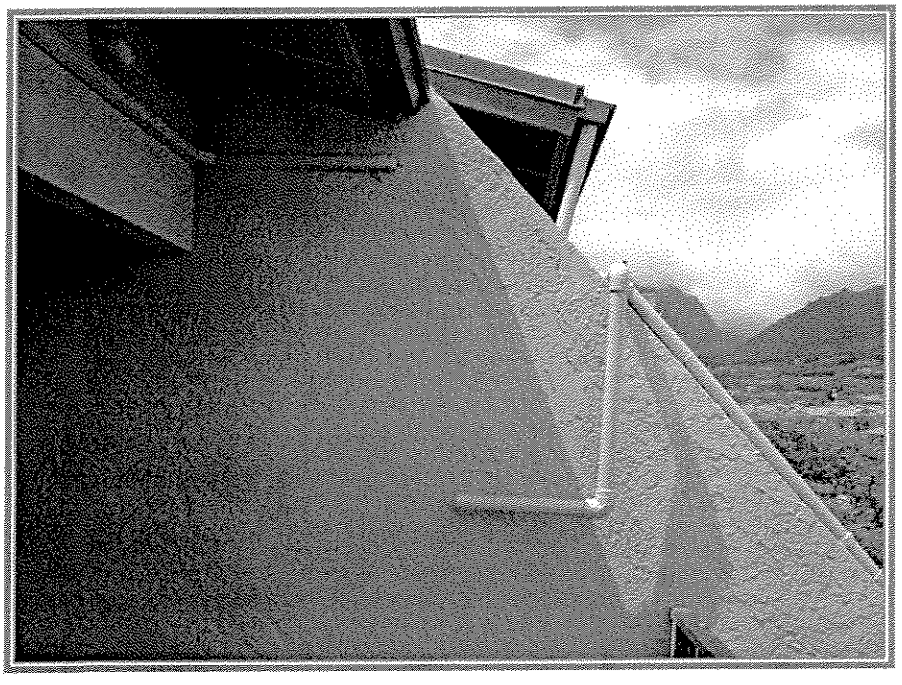

Photo 6: Broken roof drain - unit #206

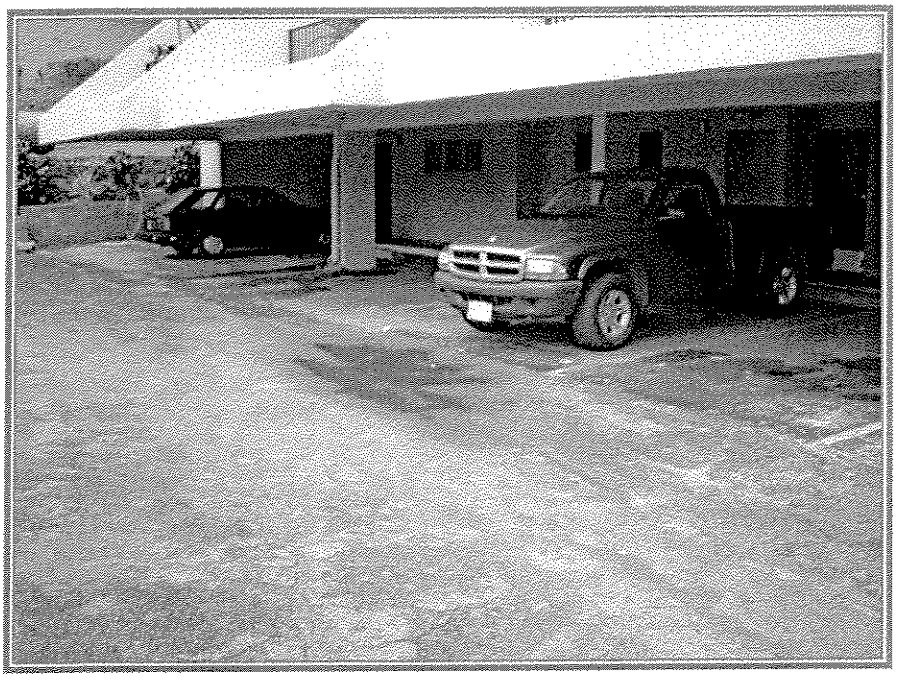

Photo 7: Ponding of water in parking area and deterioration of ac paving

Consulting Civil & Structural Engineers
1088 Bishop St., suite 2506, Honolulu, Hawaii 96813 – Tel: (808) 533-2092 Fax: (808) 533-2059
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PREPOSE ENGINEERING SYSTEMS INC.
1314 South King Street, Suite 1251
Honolulu, Hawaii 96814
Phone: (808) 591-8175
Fax: (808) 596-0479
E-mail: prepose@hawaiiantel.net

April 14, 2006

Kona Properties
c/o James H. Case, Esquire

Project: Pio Oceanview
509 Pio Drive
Wailuku, Maui, Hawaii

MECHANICAL DUE DILIGENCE REPORT
PIO OCEANVIEW

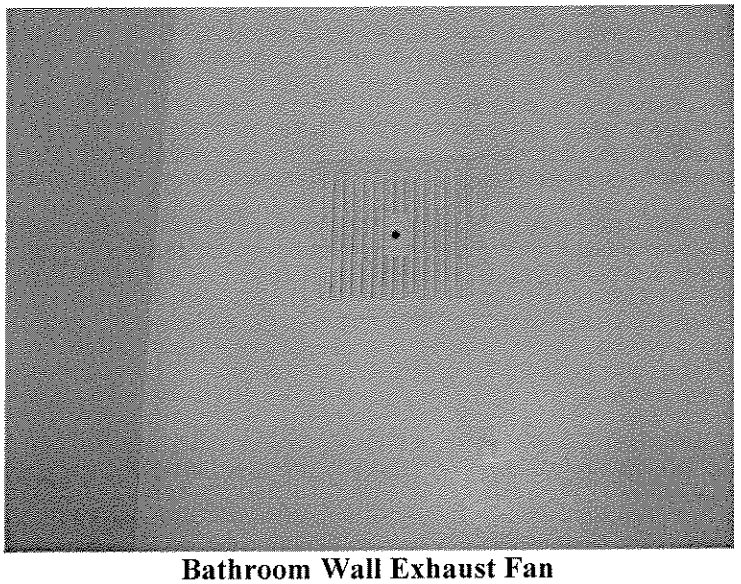
The project scope was to visually inspect the existing mechanical systems for a two-story condominium building. The Ground Floor has a central coin operated laundry, eight units and covered parking below the Second Floor walkway overhang. The Ground Floor also have the open parking for the condominium. The Second Floor has eight units and a central coin operated laundry. The building is constructed of concrete and concrete masonry. There is no insulation below the roof. The plumbing system was visually assessed to their physical conditions and code violations. The building has no central or individual air conditioning system and no automatic fire sprinkler system.

The original design drawings were not available for this report.

Two units, Units 104 and 206, were visually observed and they were in their original configuration.

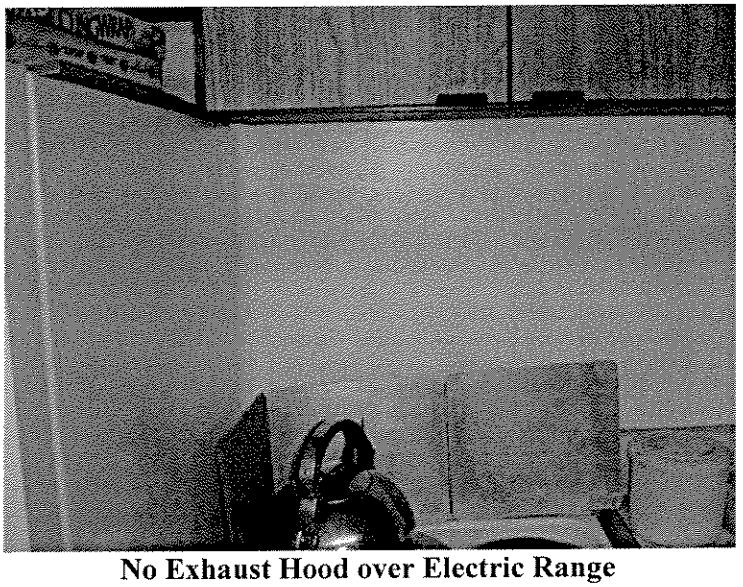
VENTILATION SYSTEM

Ventilation System:
The bathrooms have internal bathrooms and are mechanically ventilated through the roof with a wall exhaust fan. The wall fan is located on the wall back of the water closet.



Bathroom Wall Exhaust Fan

The kitchen does not have an exhaust hood over the small electric range.



No Exhaust Hood over Electric Range

The bathroom exhaust for the first and second floor discharges in individual roof caps. The roof caps are in good condition.

Exhaust Roof Cap on Roof

Ventilation Recommendations: The exhaust fans for each bathroom should be checked for proper operation and be replaced if undue noise or vibration is noticed. We also recommend at a minimum that a re-circulating type hood be installed to provide some grease vapor protection to the upper cabinets and the ceiling in the immediate area of the range. A ducted range hood is not required.

PLUMBING SYSTEM

The plumbing system consists of the waste and vent sanitary system and water system and storm drain system. The waste and vent system consists of the vertical stacks and collected underground at the Ground Floor and connected directly to the sewer main in Pio Drive. The storm drain consists of vertical stacks and discharges to the ground. The back downspouts are piped partially to the front of the building. The downspout on the northwest corner may cause ponding at the stairway.

Downspout Discharging at Bottom of Stairs

Sanitary and Storm Drain System:

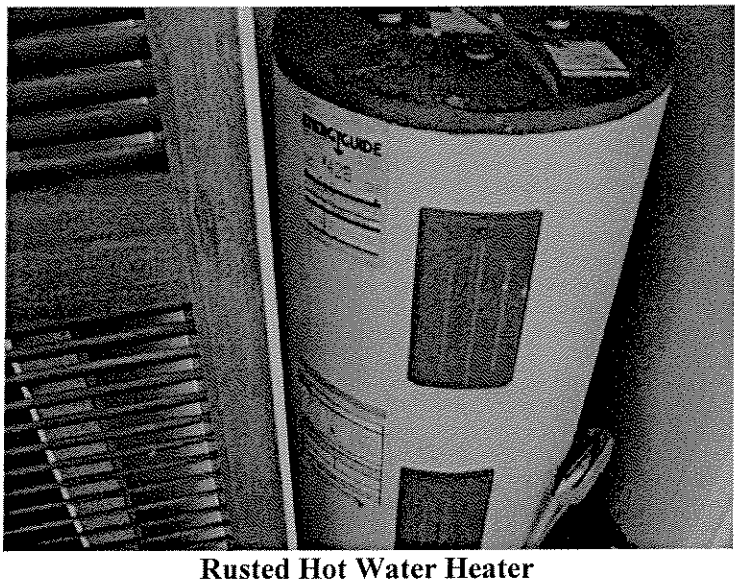
The sanitary system is constructed with cast iron waste and vent systems. The pipes and fittings are of hub and spigot type with galvanized pipe on the smaller pipe sizes and vent piping. The system is a gravity system. There were no visual checks on the pipe conditions because the pipes were within the walls and were not exposed during the site visit.

Sanitary System Recommendations: Although the pipes were visually in good condition in the Laundry, the pipes in the walls should be checked for corrosion with attention to the galvanized pipes. The horizontal pipe runs should be roto-routered to the main sewer line on Pio Drive.

Water System:

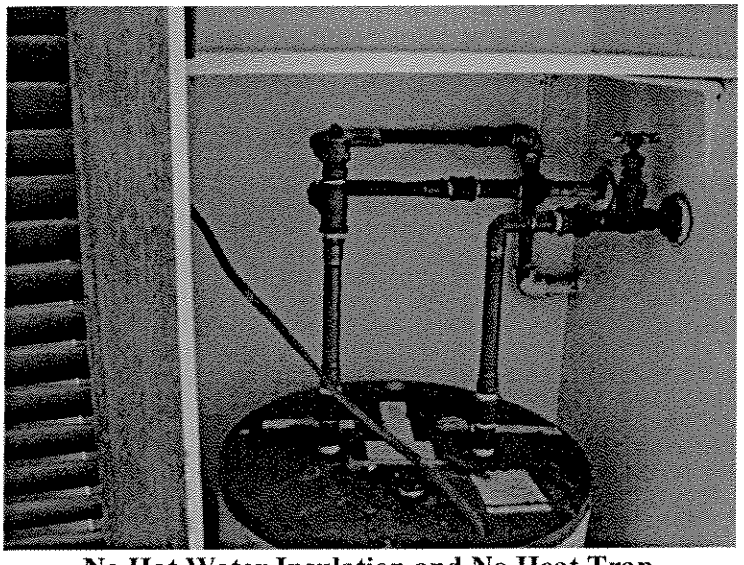
The domestic water system has a single pressure zone. The building is serviced by street pressure. There were no visual checks on the pipe conditions because the pipes were within the walls and were not exposed during the site visit. The exposed pipes in the laundry are hard drawn copper pipes and in good condition.

Individual hot water heaters located in a closet produce the hot water for each unit. The heaters vary in condition and in manufacturer type due to the replacement of the heaters. The heaters have a storage capacity of 30 gallons and non-simultaneous 4500/4500 watts heating elements. The heaters are in good condition. The point of drain discharge of the T&P valve could not be determined visually.



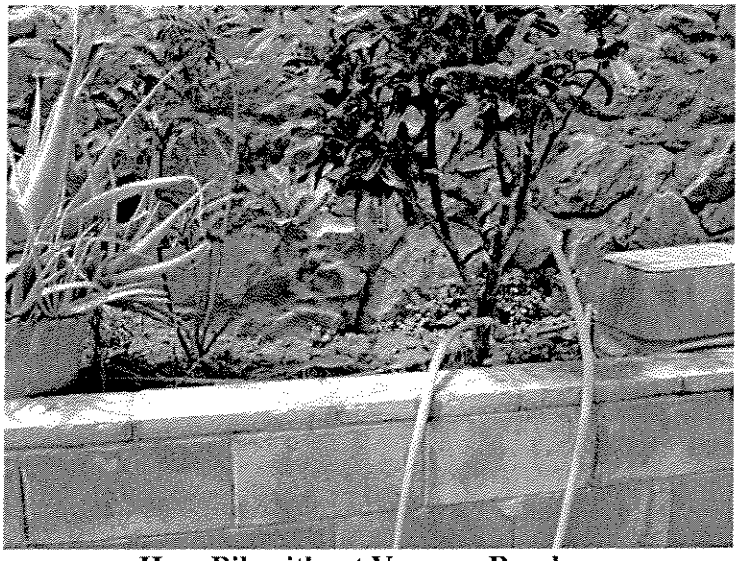
Rusted Hot Water Heater

The hot water pipes are not insulated.



No Hot Water Insulation and No Heat Trap

There are no back flow prevention devices installed for the property after the water meter on Pio Drive. There is pressure reducer located after the water meter. Existing hose bibs do not have vacuum breakers as required by County code requirements.



Hose Bib without Vacuum Breaker

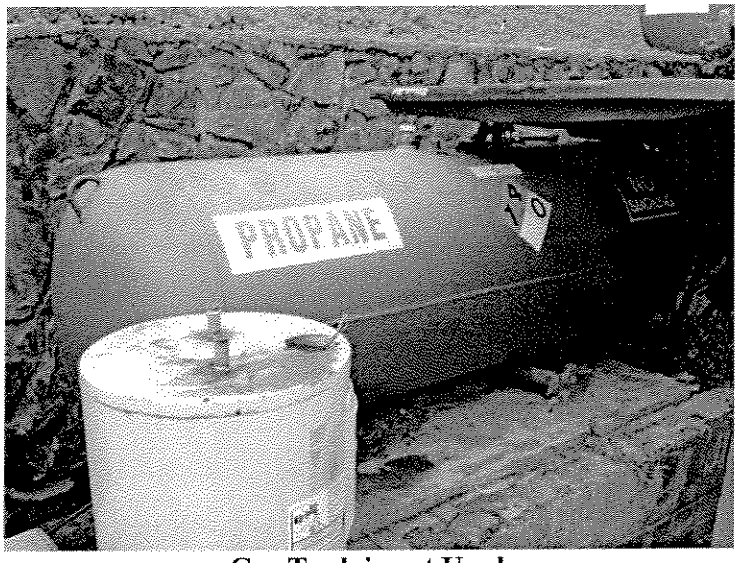
Water System Recommendations: The hot water heaters for each unit should be checked and replaced if the heaters are the original heaters. Installation of a secondary pan on the second floor unit is recommended to prevent damage to the lower units if the heater should leak. The drain for the proposed pan should terminate at grade. Heat traps should be provided on the hot water heaters as required by the energy code.

A reduced pressure backflow preventer should be installed after the water meter per Maui County requirements. A separate reduced pressure backflow preventer should be provided for the irrigation system.

Hose bibs shall be replaced with hose bibs with non-removable vacuum breaker.

The existing hot water pipes that are exposed should be insulated and a program to insulate all the hot water pipes should be implemented to meet the current energy code.

Gas Tank and Piping: The gas tank is located at the front northeast end of the complex. Gas is provided to the Laundry only. Gas is not used in the laundry. The laundry appliances are electric.



Gas Tank is not Used

Gas Tank and Piping Recommendations: The gas tank and exposed gas piping in the laundry should be removed.

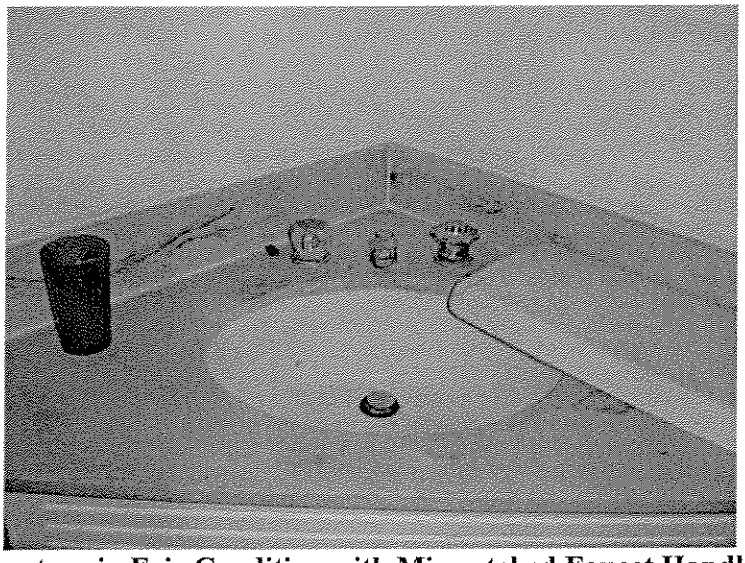
Plumbing Fixtures:

The units have the original fixtures, faucets and trim. The fixtures are old due to the use by the occupants. The plumbing fixture condition varied throughout building. The fixtures do not meet ADA and the low flow requirements.

The water closets were regular flow tank type toilets. Water closets are in fair condition aside from regular wear and tear.

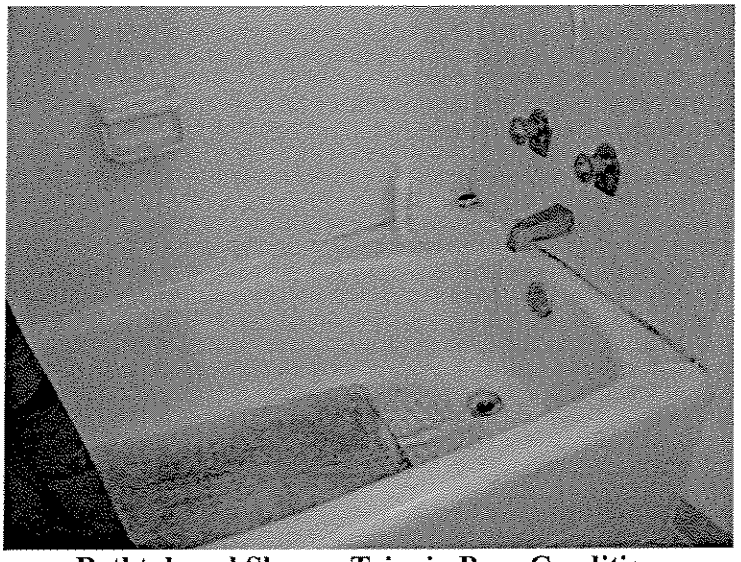
Water Closet in Fair Condition

The lavatories are the original fixtures. They are counter mounted with two handle faucets. Fixture and trims are the original and need cleaning, refinishing or replacement.



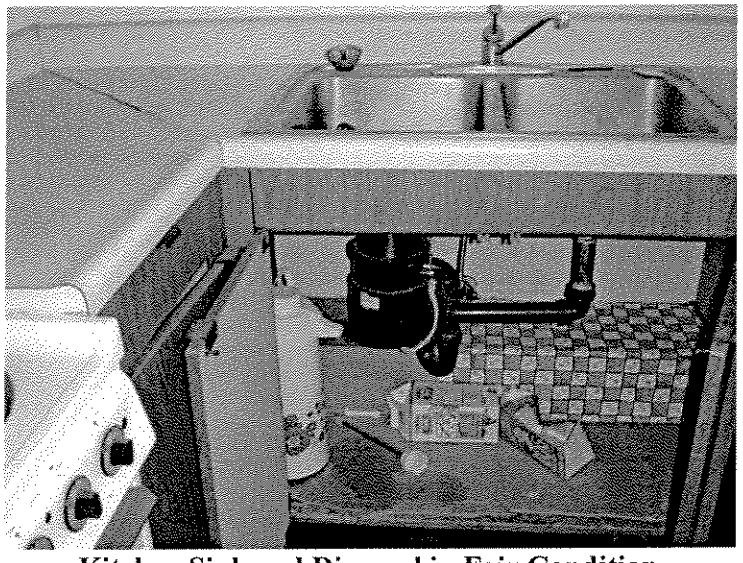
Lavatory in Fair Condition with Mismatched Faucet Handles

The tub/showers are constructed of tiled walls and cast iron tub, which are in poor condition. The shower faucet assembly is the two-handle type, which is not the pressure balancing type. Tub shower valve and trims need to be replaced



Bathtub and Shower Trim in Poor Condition

Stainless steel two-compartment kitchen sinks are self-rimming type with a disposal unit. The sinks and trims are in fairly good condition. The disposals are in good condition.



Kitchen Sink and Disposal in Fair Condition

Plumbing Fixture Recommendations: The plumbing fixtures and trims are in fair condition therefore, replace fixtures with new fixtures meeting low flow and safety requirements. The fixtures and trims should meet ADA requirements where required in the units.

The water closets are tank type and need to be replaced with low flow tank type water closet.

The lavatories should be cleaned and refinished or replaced. The faucets drain and water supplies should be replaced. Single lever faucets with ceramic cartridges should be provided.

The tub/showers and shower valve and trim should be replaced. The shower valve and trims should be replaced with a pressure-balancing valve with a high limit temperature setting and low flow showerheads and single lever handle. The pressure balancing valves are required to prevent shower scalding.

The kitchen stainless steel sink and counter should be cleaned and polished. The faucets should be replaced with new low flow faucets. The disposals should be checked for proper operation.

FIRE PROTECTION SYSTEM

The building does not have a fire sprinkler system or dry standpipe system, which are not required.

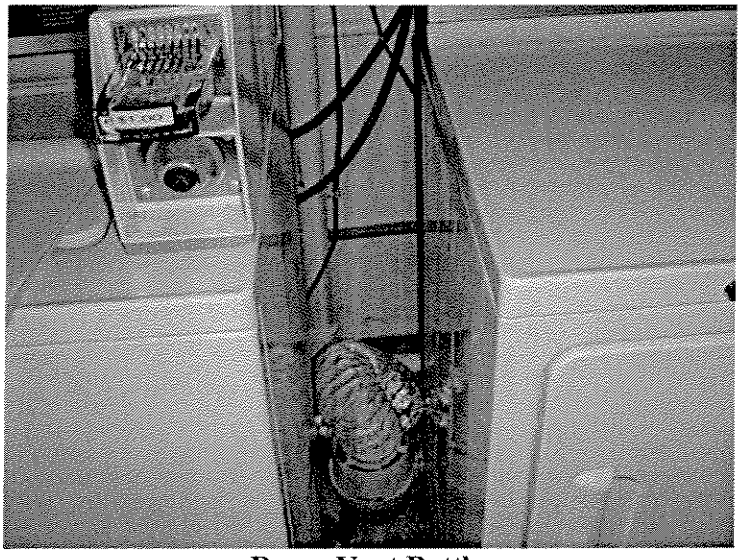
Fire extinguishers are located adjacent to the entry to the Laundry area that is centrally located from each end of the building. The extinguishers are in slightly rusted cabinets. The extinguishers are due for inspection in April 2006.

Fire Extinguisher in Rusted Cabinet

Fire Protection Recommendations: The fire extinguishers should be tested and certified. New stainless steel surface mounted cabinets should be provided and mounted at the required ADA height.

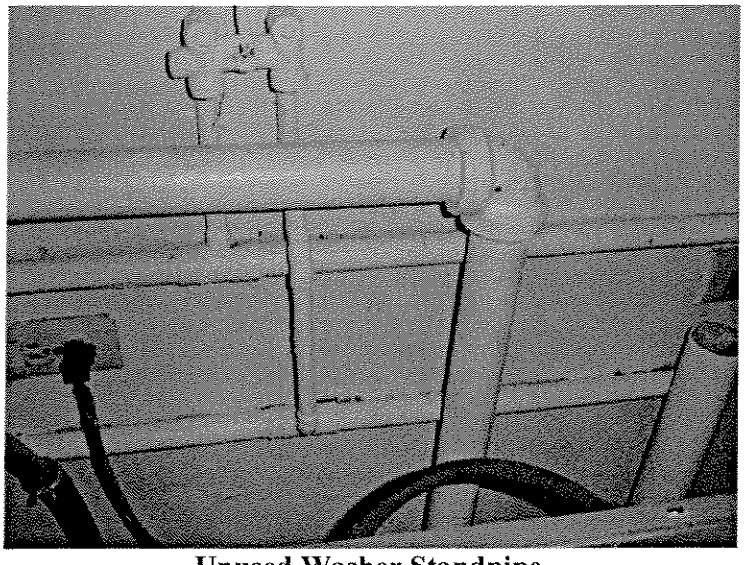
LAUNDRY

There is an existing coin operated laundry on the First and Second Floor with two (2) electric dryers, and one (1) washer. One dryer is vented through the original duct through the roof and the other to an acceptable appliance water vent bottle.



Dryer Vent Bottle

The laundry was plumbed for two washers and one of the standpipes is not used.



Unused Washer Standpipe

Laundry Recommendations: Provide a more permanent solution for the dryer exhaust. The exterior wall should be considered.

The unused washer standpipe should be capped to prevent sewer gases from entering the laundry area. The floor drain in the laundry should be primed with water to prevent sewer gases from escaping into the laundry area.

GENERAL COMMENTS

The mechanical systems were visually observed to be fair condition and systems were generally maintained in good condition except for tenant fixtures. Due to the age of the building and the systems and the normal usage there will be future maintenance repairs that will be required.

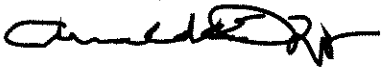
The existing sewer and water system for each unit will not accommodate a washer in each unit. Adding a washer to each unit may cause a pressure zone on the lower floors because of the suds, and may cause a sewer back up into the lower units. Professional engineering services would be required if additional fixtures were to be added in each unit.

Because this report did not include destructive investigation and technicians to test equipment, we recommend that the following additional services be retained to quantify equipment remaining life and condition of equipment, cost of repair or replacement:

Plumbing Service Company	Check hot water heaters and disposals.
Fire Service Contractor	Test and certify fire extinguishers.

These technicians and or contractors should be independent from those that are currently servicing the systems.

Submitted By:



Arnaldo Prepose, P.E.
Prepose Engineering Systems, Inc.

1136 Union Mall, Suite 700
Honolulu, HI 96813
Tel: (808) 521-3314
Fax: (808) 533-3314
email: hdl@hawaii.rr.com

Date: April 14, 2006

To: Kona Properties
c/o James H. Case, Esquire

Project: Pio Oceanside Apartments – Due Diligence
509 Pio Street, Wailuku, Maui

HDL #: 06-048

Subject: Due Diligence Report

The project site was visited on 6 April 2006 for the purpose of conducting a survey of the selected apartment units and the common areas. The project is a two-story apartment building with eight units per floor for a total of sixteen rental units.

The electrical service to the building is from the underground utility system along Pio Street and is provided by Maui Electric Company (MECO) via a pad mounted transformer located on the mauka street side corner of the property. The service voltage is 120/240 volts, single phase, three-wire. The metering and service equipment is located in a utility room centrally located on the ground floor. Each unit is provided with a MECO meter. There is a total of seventeen meters for the building; sixteen meters are assigned to the apartment units and one meter is assigned for the common area power requirements. The building service main breaker is rated at 3P600 amperes and the individual apartments are provided with a 2P100 ampere main breaker. Each apartment is provided with its own individual electrical panelboard.

The telephone service is underground from Pio Street and is provided by Hawaiian Telcom. The service is terminated at a telephone cabinet located in the ground floor utility room adjacent to the electrical service equipment. Each apartment unit is provided telephone service from this cabinet.

The CATV system service is routed underground from the Oceanic Time Warner Cable facilities located along Pio Street. The building's television system has been upgraded to accommodate Oceanic's cable system.

There is a central fire alarm system for the building. The control panel is Edwards and the manual pull stations are Firelite.

Some of the deficiencies noted for this project are as follows:

a. The apartment units have no GFI protected receptacles in the kitchen or in the bathrooms. This is a requirement of the National Electrical Code (NEC).

b. There are no smoke detectors in the bedrooms. The lone smoke detector is located within the apartment's interior hallway.

c. The location of the individual apartment electrical panelboard is not in compliance with the NEC. The area in front of the panel shall be kept clear from the floor to the ceiling.

d. The lanai receptacle does not have GFI protection.

e. The current NEC requires arc-fault protection for all circuits entering the bedroom. This includes protection for receptacles and lighting circuits. The circuit breaker(s) for these shall be arc-fault interrupter type.

f. The fire alarm system is not in compliance with the latest ADA standards. The manual stations are mounted too high and there are no visual alarm devices. However, the fire alarm system in its present form may be acceptable as a pre-existing condition.

g. Two existing pole top luminaires at the driveway entrance were damaged and have not been replaced. Only the concrete bases remains.

h. Most of the exterior lighting fixtures are deteriorated from the corrosive environment.

i. There are no record or reference architectural and engineering drawings available for our use.

The overall condition of the electrical service is acceptable, considering the age of the building. However, there are issues about the corrosion to all ferrous and aluminum materials used for electrical equipment and lighting fixtures. There are also several items listed above that will require attention.

Submitted by:
HDL Engineering Inc.

Harold T. Fujimoto
Project Manager

EXHIBIT D

COMMON ELEMENTS

The Land, in fee simple, and any and all easements and appurtenances thereto.

All unfinished, undecorated portions of all perimeter (including party) walls and interior load-bearing walls, the undecorated or unfinished surfaces of floors and ceilings, all lanai slabs and railings, all structural components, foundations, floor slabs, columns, girders, beams, supports, shafts, ceilings and spaces between the ceiling and the floor slab or roof above, roofs, exterior surfaces of the Project, including any paint or coating thereon, and all exterior windows.

All yards, grounds planters, rock walls, trellises and landscaping and all garbage chutes and other refuse facilities, if any, whether within or appurtenant to the Project.

All roads, parking areas (other than the parking stalls assigned to Apartments as Limited Common Elements), driveways, ramps, loading areas or zones, and walkways which are rationally of common use by Owners of more than one Apartment.

All ducts, pumps, valves, sewer lines, drain lines, electrical equipment, cables, wiring, chutes, pipes, shafts, wires, conduits or other utility or service lines which are utilized for or serve more than one Apartment and other central and appurtenant transmission facilities over, under and across the Project which serve more than one Apartment for services such as power, light, water, gas, sewer, refuse, telephone and radio and television signal distribution.

The hallways, corridors, stairs, stairways, awnings, canopies, and other similar areas which are not part of an Apartment and shown on the Condominium Map.

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.

EXHIBIT E
LIMITED COMMON ELEMENTS

Parking. The parking stalls for the Project are located on the ground level of the Project as shown on the Condominium Map. Each of the parking stalls is assigned to an Apartment as a limited common element as shown on Exhibit "F".

Mailboxes. Each residential Apartment shall have as a Limited Common Element the mailbox located at the Project that bears the same number as the appurtenant residential Apartment.

EXHIBIT F

COMMON INTERESTS

APARTMENT No.	Apartment Area (Sq. Ft.)	Lanai Areas, if any (Sq. Ft.)	*COMMON INTEREST %
101	572	133	5.7039%
102	572	133	5.7039%
103	572	133	5.7039%
104	572	133	5.7039%
105	572	133	5.7039%
106	572	133	5.7039%
107	572	133	5.7039%
108	572	133	5.7039%
201	572	203	6.2702%
202	572	203	6.2702%
203	572	203	6.2702%
204	572	203	6.2702%
205	572	203	6.2702%
206	572	203	6.2702%
207	572	203	6.2702%
208	572	203	6.2702%
A	230	N/A	1.8608%
B	230	N/A	1.8608%
C	60	N/A	0.4856%

*The common interest of each unit is calculated by dividing the square footage of each unit (which includes the lanai areas, if any), by the total square footage of all the units combined.

EXHIBIT G
ENCUMBRANCES AGAINST TITLE

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

2. SETBACK "15 feet wide"

   PURPOSE : Building
   SHOWN : on File Plan No. 709

3. DESIGNATION OF EASEMENT "Q"

   PURPOSE : utility
   SHOWN : on Tax Map

4. GRANT

   TO : MAUI ELECTRIC COMPANY, LIMITED and GTE HAWAIIAN TELEPHONE COMPANY INCORPORATED, now known as VERIZON HAWAII INC.

   DATED : December 4, 1961
   RECORDED : Liber 4181 Page 276

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

   INSTRUMENT : DEED

   DATED : March 19, 1968
   RECORDED : Liber 6006 Page 73

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

   INSTRUMENT : ENCROACHMENT AGREEMENT

   DATED : March 15, 1994
   RECORDED : Document No. 94-060151
   PARTIES : ASSOCIATION OF APARTMENT OWNERS OF PUUONE TERRACE, "First Party", and GEEHOU GOO, wife of Shih Hung Goo, "Second Party"

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

   INSTRUMENT : LICENSE AGREEMENT

   DATED : February 24, 1997
   RECORDED : Document No. 97-031209
   PARTIES : COUNTY OF MAUI, Licensor, and GEEHOU GOO, wife of Shih Hung Goo, Licensee

8. MORTGAGE AND SECURITY AGREEMENT

MORTGAGOR	:	KONA PROPERTIES, a California corporation
MORTGAGEE	:	BANK OF HAWAII, a Hawaii corporation
DATED	:	August 18, 2004
RECORDED	:	Document No. 2004-181394
AMOUNT	:	$800,000.00

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

INSTRUMENT	:	ASSIGNMENT OF RENTS
DATED	:	August 18, 2004
RECORDED	:	Document No. 2004-181395
PARTIES	:	BANK OF HAWAII, a Hawaii corporation, as "Assignee" and KONA PROPERTIES, a California corporation, as "Assignor"

Note: Items 8 and 9 above must be released before the developer conveys the apartment to a buyer.

EXHIBIT H
MAINTENANCE FEES

APARTMENT NO.	MONTHLY FEE	x12 MONTHS= YEARLY TOTAL
101	$199.18	$2,390.20
102	$199.18	$2,390.20
103	$199.18	$2,390.20
104	$199.18	$2,390.20
105	$199.18	$2,390.20
106	$199.18	$2,390.20
107	$199.18	$2,390.20
108	$199.18	$2,390.20
201	$218.95	$2,627.38
202	$218.95	$2,627.38
203	$218.95	$2,627.38
204	$218.95	$2,627.38
205	$218.95	$2,627.38
206	$218.95	$2,627.38
207	$218.95	$2,627.38
208	$218.95	$2,627.38
A	$64.99	$779.83
B	$64.99	$779.83
C	$16.98	$203.70
Total:	$3,492.00	$41,904.00

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 Fee x 12 months =	Yearly Total
Utilities and Services		
Air Conditioning	$0.00	$0.00
Electricity	50.00	600.00
[X] common elements only		
[ ] common elements and apartments		
Elevator	0.00	0.00
Gas	0.00	0.00
[ ] common elements only		
[ ] common elements and apartments		
Refuse Collection	175.00	2,100.00
Telephone		
Water and Sewer	750.00	9,000.00
Maintenance, Repairs and Supplies		
Building	200.00	2,400.00
Grounds	250.00	3,000.00
Management		
Management Fee	520.00	6,240.00
Payroll and Payroll Taxes	0.00	0.00
Office Expenses (including health insurance)	0.00	0.00
Insurance	525.00	6,300.00
Reserves(*)	**659.53**	**7,914.36**
Taxes and Government Assessments	.83	10.00
Audit Fees	33.33	400.00
Other (Legal Fees, Bank Fees, HOA Meetings)	64.17	770.00
TOTAL	**$3,227.86**	****$38,734.36**

I, MARY JANE KRAMER, as agent for/and/or employed by Commercial Properties of Maui Management, Inc. the condominium managing agent/developer for the Pio Ocean View Apartments condominium project, hereby certify that the above estimates of initial maintenance fee assessments and maintenance fee disbursements were prepared in accordance with generally accepted accounting principles.

Mary Jane Kramer
Signature

6-27-06
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 §514A-83.6, HRS, and the replacement reserve rules, Subchapter 6, Title 16, Chapter 107, Hawaii Administrative Rules, as amended.

(**) The surplus amount of approximately $3,169.64 will be carried over in a discretionary fund.

Pursuant to §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.

509 PIO PLACE
2006 OPERATING BUDGET
Prepared on a Cash basis

	January	February	March	April	May	June	July	August	September	October	November	December	Total
INCOME:													
Maintenance Fees	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	3,232.00	38,784.00
Coin Laundry	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00	3,120.00
TOTAL INCOME	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	3,492.00	41,904.00
COMMON EXPENSES:													
Excise Tax (on reserve interest)	0.00	0.00	0.00	5.00	0.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	10.00
Common Electricity	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
General Maintenance Building	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	2,400.00
HOA Meetings/Miscellaneous	0.00	0.00	0.00	0.00	0.00	0.00	50.00	0.00	0.00	0.00	0.00	0.00	50.00
Insurance - D&O	0.00	0.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,000.00
Insurance - Liability/Property/Bond	0.00	0.00	5,300.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,300.00
Landscaping/janitorial	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00
Legal Fees	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	480.00
Management Fees	520.00	520.00	520.00	520.00	520.00	520.00	520.00	520.00	520.00	520.00	520.00	520.00	6,240.00
Miscellaneous (bank fees, etc.)	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	240.00
Professional Fees (Tax Prep)	0.00	0.00	400.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	400.00
Refuse	175.00	175.00	175.00	175.00	175.00	175.00	175.00	175.00	175.00	175.00	175.00	175.00	2,100.00
Water & Sewer	1,500.00	0.00	1,500.00	0.00	1,500.00	0.00	1,500.00	0.00	1,500.00	0.00	1,500.00	0.00	9,000.00
TOTAL COMMON EXPENSES	2,755.00	1,255.00	9,455.00	1,260.00	2,755.00	1,255.00	2,805.00	1,255.00	2,760.00	1,255.00	2,755.00	1,255.00	30,820.00
RESERVES AS PER STUDY	659.53	659.53	659.53	659.53	659.53	659.53	659.53	659.53	659.53	659.53	659.53	659.53	7,914.36
DISCRETIONARY FUND													3,169.64

509 Pio Place
20 YEAR CASH FLOW PLAN
Year 2006

	2006	2007	2008	2009	2010	2011	2012	2013	2014
TOTAL REPLACEMENT COST	152,200.00	158,288.00	164,619.52	171,204.30	178,052.47	185,174.57	192,581.55	200,284.82	208,296.21
X 4% annual cost adjustment	6,088.00	6,331.52	6,584.78	6,848.17	7,122.10	7,406.98	7,703.26	8,011.39	8,331.85
TOTAL COSTS	158,288.00	164,619.52	171,204.30	178,052.47	185,174.57	192,581.55	200,284.82	208,296.21	216,628.06
AMORTIZE 20 YEARS	7,914.40	8,230.98	8,560.22	8,902.62	9,258.73	9,629.08	10,014.24	10,414.81	10,831.40
PER MONTH	659.53	685.91	713.35	741.89	771.56	802.42	834.52	867.90	902.62
MONTHLY RESERVE PER OWNER	41.22	42.87	44.58	46.37	48.22	50.15	52.16	54.24	56.41

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
216,628.06	225,293.18	234,304.91	243,677.10	253,424.19	263,561.16	274,103.60	285,067.75	296,470.46	308,329.27	320,662.44
8,665.12	9,011.73	9,372.20	9,747.08	10,136.97	10,542.45	10,964.14	11,402.71	11,858.82	12,333.17	12,826.50
225,293.18	234,304.91	243,677.10	253,424.19	263,561.16	274,103.60	285,067.75	296,470.46	308,329.27	320,662.44	333,488.94
11,264.66	11,715.25	12,183.86	12,671.21	13,178.06	13,705.18	14,253.39	14,823.52	15,416.46	16,033.12	16,674.45
938.72	976.27	1,015.32	1,055.93	1,098.17	1,142.10	1,187.78	1,235.29	1,284.71	1,336.09	1,389.54
58.67	61.02	63.46	66.00	68.64	71.38	74.24	77.21	80.29	83.51	86.85

509 Pio Drive
Reserve Study - 20 Year
Cash Flow Basis
Calendar Year 2006

Year Built - 1969 MAJOR COMPONENT	ESTIMATED USEFUL LIFE	ESTIMATED REMAINING LIFE	CURRENT ESTIMATED COST TO REPLACE	END OF YEAR 1 2006	END OF YEAR 2 2007	END OF YEAR 3 2008	END OF YEAR 4 2009	END OF YEAR 5 2010	END OF YEAR 6 2011	END OF YEAR 7 2012
Roof	50	50	$45,000.00							
Painting	10	10	$25,000.00							
Paving/Concrete	40	15	$25,000.00							
Landscaping	30	30	$5,200.00							
Electrical/Plumbing	40	15	$52,000.00							
			$152,200.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Component cost increase factor @ 4% per annum				1.40	1.456	1.514	1.575	1.638	1.703	1.771
Estimated replacement costs in scheduled year (apply cost factor to total replacement costs)				$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Reserve Balance				$0.00	$7,914.40	$16,145.38	$24,705.59	$33,608.21	$42,866.94	$52,496.02
Contributions (current)				$7,914.40	$8,230.98	$8,560.22	$8,902.62	$9,258.73	$9,629.08	$10,014.24
New Balance				$7,914.40	$16,145.38	$24,705.59	$33,608.21	$42,866.94	$52,496.02	$62,510.26

509 Pio Drive
Reserve Study - 20 Year
Cash Flow Basis
Calendar Year 2006

Year Built - 1969 MAJOR COMPONENT	ESTIMATED USEFUL LIFE	ESTIMATED REMAINING LIFE	CURRENT ESTIMATED COST TO REPLACE	END OF YEAR 8 2013	END OF YEAR 9 2014	END OF YEAR 10 2015	END OF YEAR 11 2016	END OF YEAR 12 2017	END OF YEAR 13 2018	END OF YEAR 14 2019
Roof	50	50	$45,000.00							
Painting	10	10	$25,000.00							
Paving/Concrete	40	15	$25,000.00							
Landscaping	30	30	$5,200.00							
Electrical/Plumbing	40	15	$52,000.00							
			$152,200.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Component cost increase factor @ 4% per annum				1.842	1.916	1.993	2.072	2.155	2.241	2.331
Estimated replacement costs in scheduled year (apply cost factor to total replacement costs)				$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Reserve Balance				$62,510.26	$72,925.07	$83,756.48	$95,021.13	$106,736.38	$118,920.23	$131,591.44
Contributions				$10,414.81	$10,831.40	$11,264.66	$11,715.25	$12,183.86	$12,671.21	$13,178.06
New Balance				$72,925.07	$83,756.48	$95,021.13	$106,736.38	$118,920.23	$131,591.44	$144,769.50

509 Pio Street
Reserve Study - 20 Year
Cash Flow Basis
Calendar Year 2006

Year Built - 1980 MAJOR COMPONENT	ESTIMATED USEFUL LIFE	ESTIMATED REMAINING LIFE	CURRENT ESTIMATED COST TO REPLACE	END OF YEAR 15 2020	END OF YEAR 16 2021	END OF YEAR 17 2022	END OF YEAR 18 2023	END OF YEAR 19 2024	END OF YEAR 20 2025	END OF YEAR 21 2026
Roof	50	25	$45,000.00							
Painting	10	10	$15,600.00							
Paving/Concrete	40	15	$10,920.00	$10,920.00						
Landscaping	30	30	$5,200.00							
Electrical/Plumbing	40	15	$52,000.00	$52,000.00						
			$128,720.00	$62,920.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Component cost increase factor @ 4% per annum				2.424	2.521	2.622	2.727	2.836	2.950	3.068
Estimated replacement costs in scheduled year (apply cost factor to total replacement costs)				$152,539.91	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Reserve Balance				$144,769.50	$5,934.77	$20,188.15	$35,011.68	$50,428.14	$66,461.26	$83,135.71
Contributions				$13,705.18	$14,253.39	$14,823.52	$15,416.46	$16,033.12	$16,674.45	$17,341.43
New Balance				$5,934.77	$20,188.15	$35,011.68	$50,428.14	$66,461.26	$83,135.71	$100,477.14

*LIFE
EXTENDED ITEMS
IN GOOD REPAIR

EXHIBIT I

SUMMARY OF SALES CONTRACT

The specimen Sales Contract filed with the Commission sets forth the terms on which the Developer may sell units of The Pio Ocean View Apartments in fee simple, condominium ownership to individual buyers. Those terms include the following:

1. The Sales Contract provides that closing costs and expenses shall be allocated as follows: Seller shall pay 60% of the premium for the Title Policy, the cost of drafting of conveyance documents, Seller's notary fees, conveyance tax, and 50% of escrow fees. Buyer shall pay 40% of the premium for the Title Policy, any additional costs relating to the issuance of extended coverage policy (including a lender's policy), the cost of obtaining Buyer's consents, if any, Buyer's notary fees, all recording fees, 50% of escrow fees, any mortgage-related fees, and any condominium and association ownership transfer fees.

2. The apartments will be sold and conveyed to the Buyer on a strictly "AS IS, WHERE IS" basis.

3. The Sales Contract provides that any dispute by or between Seller and Buyer arising out of or incident to the Sales Contract, shall be submitted to mediation and, if necessary, to arbitration in accordance with the terms, conditions and procedures set forth in the Sales Contract.

The foregoing is only a summary of some of the key terms of the Sales Contract for The Pio Ocean View Apartments. You should read the full text of the Sales Contract with care.

EXHIBIT J

SUMMARY OF ESCROW AGREEMENT

A copy of the executed Escrow Agreement for the Project between Title Guaranty Escrow Services, Inc. ("Escrow"), and Developer has been filed with the Commission. The Escrow Agreement provides for the deposit of the funds of a purchaser of an Apartment 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 shall be paid to the parties in accordance with the terms of the Sales Contract. In the event that the Sales Contract or Hawaii Revised Statutes Chapter 514A entitle a purchaser to a refund of purchaser's deposits held by Escrow, then Escrow, upon instruction from Developer, will refund purchaser's deposits, 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 Chapter 514A, Hawaii Revised Statutes, as amended.

By law the total amount of such cancellation fees shall not exceed Two Hundred Fifty and No/100 Dollars ($250.00) so long as the cancellation occurs prior to the time the Sales Contract becomes effective (following issuance of the Final Public Report). Under the Escrow Agreement no disbursement of funds can be made to the Developer until the Sales Contract becomes effective under the provisions of Chapter 514A, Hawaii Revised Statutes.

The foregoing is only a summary of some of the key terms of the Escrow Agreement. It is incumbent upon a prospective purchaser to read the executed Escrow Agreement with care.