

SKYLINE AT ISLAND COLONY HOTEL RENTAL PROGRAM

Revised April 2016

ISLAND COLONY PARTNERS

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Honolulu, HI 96815
Tel – (808) 921-7110
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General Partner: American Pacific Hotels, LLC
President - William T. Tanaka, Jr.
Managing Director: Kristie Maruyama
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THE HOTEL/CONDOMINIUM PHYSICAL MAKE-UP

The Skyline at Island Colony Hotel/Island Colony Condominium consists of 740 individual one bedroom, studio, and lodge apartments. Approximately 100 of these apartments are in the Hotel Rental Program, known as Island Colony Partners, a Hawaii Limited Partnership. The Hotel Rental Program is managed by Aqua Hotels & Resorts (the “Operator”).

THE PARTNERSHIP

The Partnership controls the following areas of the Hotel/Condominium:

1. The Ground Floor - Front desk, receiving, switchboard
2. Mezzanine - Management and Partnership offices
3. 5th Floor - Back of the house (including employee cafeteria, showers, lockers, Housekeeping and Maintenance areas)
4. Each Floor - Maids' room
5. Storage area on recreation deck (6th Floor)
6. Roof Deck

Island Colony Partners is a Limited Partnership formed to represent the hotel apartment owners who contribute the use of their apartments to the Hotel Rental Program. The apartment owners in the Hotel Rental Program become Limited Partners in the Partnership. All Limited Partners have limited liability and are therefore protected from lawsuits and other liable occurrences in the operation of the Hotel Rental Program. The General Partner of Island Colony Partners is American Pacific Hotels, LLC., a Corporation, which is 100% owned and controlled by William T. Tanaka, Jr. The General Partner assumes all Partnership liabilities and also has the authority to act on behalf of all the Limited Partners in any and all Partnership matters.

JOINING THE HOTEL RENTAL PROGRAM

1. A Subscription Agreement Form can be obtained by calling (808) 921-7110.
2. Must Meet Hotel Standard - The Owner's apartment is inspected to determine if it meets hotel operating standards. Owners are responsible for initial costs, if any, to bring the apartment up to hotel operating standards. All hotel apartments must have furniture packages that have been approved by the Operator. We will be happy to assist you in fulfilling your furniture package requirements should you need any additional items to complete the apartment inventory.
Unlike rentals managed by individual Rental Agents, the Partnership handles and pays for all apartment interior maintenance, repairs, and room renovations once you are in the Hotel Rental Program.

APARTMENT SALE

The Partnership must receive the following documents when an apartment is sold.

1. Copy of Conveyance Document (including recordation date)
2. Assignment Document (completed in its entirety)
3. Registration Form (completed in its entirety)
4. \$100 Transfer Fee (payable to Island Colony Partners)

OWNERS' SHARE IN PROFITS

Each owner in the Hotel Rental Program (Limited Partner) shares in the profits of the hotel operation regardless of the occupancy their specific apartment(s) receives in any given month. The hotel operation pays all hotel operating expenses including: liability insurance, fire insurance on the contents of each apartment, management fees, State 4.712% General Excise Tax, and 9.25% Transient Accommodations Tax from the total hotel revenues. Funds equal to approximately 6% of Room Revenues are deposited in a Furniture, Fixtures and Equipment Reserve Fund and are used to replace furniture and to renovate your apartment as necessary. The Partnership then pays the Partnership administrative expenses and distributes the remaining balance in the ratio of 1% to the General Partner and 99% to the Limited Partners – Apartment Owners.

However, each owner is still responsible for their normal costs of ownership such as loan payments (if any), real property taxes, lease rent (land), and common area maintenance fees. Hawaiiana Management Company, Ltd., acting as fiscal agent for the Island Colony Association of Apartment Owners, will continue to bill you monthly for Lease Rent and Common Area Maintenance fees. Any questions regarding Lease Rent and Common Area Maintenance fees should be directed to the Association Administrator at (808) 922-2442.

MONTHLY DISTRIBUTION

For distribution purposes, all studio, lodge and one-bedroom apartments in the Hotel Rental Program are added together where studio and lodge apartments are given a value of 1 and one-bedroom apartments a value of 1-1/3. (Note that an adjustment was made relative to Common Area Maintenance fees and the ratio is closer to 1.4-1). Distributions are paid at the end of every month, one month in arrears (e.g. Distributions for January will be mailed February 28, etc.). Each month the General Partner sends a letter to the Partners summarizing last month's operational results and provides some outlook on the hotel's performance in the upcoming months. In addition to the Partners' letter, a consolidation of the Hotel and Partnership's financial results for the month is presented.

Note: Foreign owners must have either a Social Security Number (SSN) or Employers Identification Number (EIN). If a SSN or EIN number is not included on the Registration Form the Partnership is required by the Internal Revenue Service to withhold approximately 40% of their net distribution check to pay to the United States Treasury.

PARTNERSHIP TAX RETURNS PREPARED EACH YEAR

Each year a Certified Public Accounting firm reviews the Partnership and the hotel operations books and prepares the U.S. Federal Tax Returns for the Partnership. The CPA firm also prepares an individual Schedule K-1 for each Limited Partner (hotel apartment owner). The schedule K-1's are mailed to each apartment owner by March 31st following the calendar tax year and should be filed with their individual U.S. tax returns.

HOTEL RENTAL PROGRAM TERMINATION

The Partnership would like to ensure that all apartments are returned to the Owner(s) in good condition. Therefore, the Operator will do the following renovations once notice of withdrawal is received:

1. Shampoo Carpet
2. Touch up wall and furniture paint (as needed)

3. Remove the hotel telephone and cancel the phone service for the apartment
4. Change door locks

This process takes approximately 2 weeks. During this period you are not eligible to receive a distribution. You may take possession of your apartment 2 weeks after the withdrawal date.

In order to withdraw your apartment from the hotel rental program, owner must submit written notice via one of the following methods not later than the end of the quarter four calendar quarters (1 year) prior to the date of withdrawal. Any such withdrawal shall be on the last day of a calendar quarter:

- 1 Mail via United States Postal Service to our office
- 2 Hand Delivery
- 3 Fax to (808) 922-3809

First Quarter – January to March
Second Quarter – April to June
Third Quarter – July to September
Fourth Quarter – October to December

As noted in section 19(b) of the partnership agreement written notice of withdrawal received not later than the end of the quarter four calendar quarters prior to the date of withdrawal. Any such withdrawal shall be on the last day of a calendar quarter. "For Example: Written notice received between January 1, 2011 to March 31, 2011, owner will be able to take possession of unit on March 31, 2012.

Declaration of Horizontal Property Regime:

Non-Hotel Rental Program owners renting out apartments must adhere to the Declaration of Horizontal Property Regime section on Purpose and Use, paragraph (a) which states: "...that any Residential Apartment which is not committed to the hotel operation described in paragraph 10 and not used by the Hotel Operator shall not be rented for a period of less than **thirty (30) days**. All such minimum rentals shall be evidenced by a written lease, a copy of which shall be filed with the Hotel Operator..." this minimum stay requirement was created to discourage owners from competing with the hotel, which may result in their short-term guests expecting free hotel services from the Operator.

BENEFITS

As a Limited Partner in the Island Colony Hotel Rental Program you are eligible for the following benefits:

1. The Hotel Rental Program pays the following expenses for you:
 - Any and all repairs and maintenance of your apartment and appliances (A/C, Refrigerator, TV, etc.)
 - Insurance on the personal property within your apartment
 - Liability Insurance
 - Advertising
 - Management Fees
 - Legal Fees, if any
 - Furniture, Fixtures and Equipment Reserve (See #2 Below)
 - State 4.712% General Excise Taxes
 - State 9.25% Transient Accommodations Taxes

*Remember that the monthly check you receive is **NET** of all of the above expenses.*

2. The Island Colony Partnership set up a Reserve for Furniture, Fixtures and Equipment (6% of total Room Revenue each month). This is used to replace items within your apartment and to renovate your apartment (as necessary) at no cost to you.

3. Island Colony Partners supervises a professional, efficient, full-service resort operation with no trouble or interruption to you. This means you will never have to worry about bounced checks, evicting undesirable tenants, late rental payments or erroneous repair and maintenance costs.
4. Owners who have been in the Hotel Rental Program for at least one year may enjoy the benefit of the Owners' Use Program without an interruption to their monthly distribution check. The Owner's Use Program offers you and/or your immediate family a maximum 14-day complimentary stay each calendar year at the Island Colony in the apartment type you own. This program is available throughout the year except during the Peak Seasons: winter season - from December 22 through March 31 and summer season – from June 16 through August 31. If you should use all of your complimentary time, a special owner's rate will be determined based on availability and season. To make reservations, email kmaruyama@islandcolonypartners.com or admin@islandcolonypartners.com or call (808) 921-7110.

SKYLINE AT ISLAND COLONY HOTEL OWNERS' USE PROGRAM

Revised May 2015

Owners who have been in the Hotel Rental Program for at least one year may enjoy the benefit of the Owners' Use Program. The Owners' Use Program offers you and/or your immediate family a maximum 14-day complimentary stay each calendar year at the Island Colony for the apartment type you own. This program is available throughout the year except during the Peak Seasons: winter season – from December through March and summer season – from June through August. If you should use all of your complimentary time, additional stays may be booked at special owners discounted rate determined by availability and occupancy. All Island Colony reservations can be made by emailing Island Colony Partners office at admin@islandcolonypartners.com or kmaruyama@islandcolonypartners.com .

General Guidelines:

- 1) Island Colony Partners will take direct calls from Owners for bookings.
 - a) Direct phone call to (808) 921-7110 (M-F 8:30am to 4:00pm HST)
 - b) Facsimile Request direct to (808) 922-3809
 - c) Via Internet E-mail to admin@islandcolonypartners.com or kmaruyama@islandcolonypartners.com

ALL OWNERS BE PREPARED TO PROVIDE NAME, APARTMENT NUMBER, CONTACT PHONE NUMBER AND E-MAIL FOR VERIFICATION PURPOSES.

- 2) Island Colony Partners will be responsible for verification of available room nights (per agreement at 14 room nights per calendar year) and forward reservation request to Skyline at Island Colony Reservations upon approval.
- 3) Island Colony Hotel Reservations staff will accept reservations and forward confirmations directly to Owners within 48 hours of receiving notification.

Schedule of Fees: Please see Exhibit A

Booking Guidelines:

- 1) REGULAR SEASON: April 1 – June 15
September 1 – December 21
(Blackout – Honolulu Marathon period: around second Sunday in December)
****Note: DATES MAY BE ADJUSTED ANNUALLY**
 - a) Bookings accepted in advance, no advance booking restrictions.
 - b) Subject to general availability
 - c) Additional nights over fourteen (14) days will be offered at a special owner's rate determined on availability and season.
 - d) Each resident using owner use free nights will be charged a check out fee as stated in the occupancy schedule of fees.
 - e) Additional services are available upon request. Please see Exhibit A Schedule of Fees.
- 2) PEAK SEASON: January 1 – March 31
June 16 – August 31
December 22 – December 31
 - a) Per agreement, no Owner comp nights allowed to be used.

- b) Bookings may be accepted WITHIN thirty (30) days prior to arrival. No Peak Season bookings accepted prior to thirty-day window.
- c) Additional nights over fourteen (14) days at special owners' rate determined by availability and occupancy. (Not to be combined with Special Promotions)
- d) Each resident using owner use free nights will be charged a check out fee as stated in the occupancy schedule of fees.
- e) Additional services are available upon request. Please see Exhibit A Schedule of Fees.

EXHIBIT A

Schedule of Fees

| <u>Unit Size</u> | <u>Service</u> | <u>Fee</u> |
|-------------------------|-----------------------|-------------------|
| Studio/Lodging | Daily Cleaning | \$25.00 |
| | Towels & Trash Only | \$12.00 |
| | Check-out Cleaning | \$50.00 |
| One-Bedroom | Daily Cleaning | \$35.00 |
| | Towels & Trash Only | \$15.00 |
| | Check-out Cleaning | \$65.00 |

Other Services and Fees

| | | |
|----------------------------|------------------------------------|---------|
| Miscellaneous Cleaning | Per hour (Min. 1 hr.) | \$25.00 |
| Building Maintenance Labor | Per hour (Min. ½ hr.) | \$35.00 |
| Cribs | Per day (Based on availability) | \$17.00 |
| Rollaways | Per day (Based on availability) | \$17.00 |

Note: The above cost of services and fees are subject to change from time to time as determined by Agent.