STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

April 8, 2016

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

PSF No.: 16OD-025

Oahu

Re-Submittal: Consent to Stock Purchase Agreement and Consent to Mortgage Regarding General Lease No. S- 4095, between Hawaii OGL LLC, Seller/Mortgagee, and JNC USA, Inc., Purchaser, Olomana Golf Links, Inc., Lessee, Mortgagor; Waimanalo, Koolaupoko, Oahu, Tax Map Key: (1) 4-1-013:010 & 012

APPLICANT and REQUEST:

JNC USA, Inc., Purchaser/Mortgagor, a domestic profit corporation, requesting consent to (1) stock purchase agreement; (2) mortgage from Hawaii OGL LLC, a domestic limited liability company, Seller/Mortgagee, in an amount not to exceed $2,000,000.00.

LEGAL REFERENCE:

Section 171-22, 36(a)(5), and 55 Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands situated at Waimanalo, Koolaupoko, Oahu, identified by Tax Map Key: (1) 4-1-013:010 and 012, as shown on the attached maps labeled **Exhibit A**.

AREA:

Parcel 10 - 129.859 acres
Parcel 12 - 4.774 acres

ZONING:

State Land Use District: Urban
City & County of Honolulu LUO: Open space

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: No

CURRENT USE STATUS:

Parcel 10 - Encumbered by General Lease No. 4095, Olomana Golf Links, Inc.; Lessee, for construction and operation of a golf course and allied facilities. The allied facilities may include but are not limited to a clubhouse.

Parcel 12 - Encumbered by Revocable Permit No. 7517, Olomana Golf Links, Inc.; Permittee, for general agriculture purposes (Golf course nursery operations).

TERM OF LEASE:

Originally 40 years, commencing on May 4, 1967 and expiring on May 3, 2007. Term was extended for an additional 25 years from May 4, 2007 to May 3, 2032. Last rental reopening occurred on October 28, 2014; next rental reopening is scheduled for October 28, 2024.

CURRENT RENTAL:

GL 4095 – Parcel 10
$140,000 payable in quarterly payments, or a percentage of the gross receipts, whichever is greater. Percent rent sources: 9% from green fees, 5% from food, 7% from liquor, 6% from pro shop.

RP 7517 – Parcel 12
$750 per month since July 1, 2012

STOCK PURCHASE AGREEMENT:

CONSIDERATION:
$3,000,000.00

RECOMMENDED PREMIUM:

Pursuant to Condition 13, "Assignment", "... the sale or transfer of 20% or more or ownership interest or stocks by dissolution, merger or any other means shall be deemed an assignment for purposes of this paragraph and subject to the right of the Lessor to impose the foregoing premium." In addition, the subject stock purchase agreement is subject to the assignment premium policy attached as **Exhibit B**.

Exhibit C is the letter from the tenant enclosing the schedule of the assignment premium, which is a negative figure, and the justification provided by its CPA (in the form of an email). Staff notes the calculation itself is generally in line with the assignment premium policy, and no assignment premium is payable for the subject request.

DCCA VERIFICATION:

Hawaii OGL LLC:

Place of business registration confirmed:	YES _x_	NO __
Registered business name confirmed:	YES _x_	NO __
Good standing confirmed:	YES _x_	NO __

JNC USA, Inc.

Place of business registration confirmed:	YES _x_	NO __
Registered business name confirmed:	YES _x_	NO __
Good standing confirmed:	YES _x_	NO __

REVOCABLE PERMIT:

Character of Use
Golf course nursery operations

Monthly Rent
The monthly rent for RP 7517 has been adjusted to $750 effective July 2012 when the management of the golf course was changed. The rent was adopting a 8% return on prevailing assessed land value. Staff confirms the current assessed land value remains the same as in 2012. Therefore, staff recommends the rent for RP 7517 to remain at $750.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with Hawaii Administrative Rule Section 11-200-8 and the Exemption List for the Department of Land and Natural Resources approved by the Environmental Council and dated June 5, 2015, the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, Item 47. See Exemption Notification attached as **Exhibit D**.

APPLICANT REQUIREMENT:

None

USE OF LOAN PROCEEDS:

To pay a portion of the purchase price.

REMARKS:

Parcel 10 was leased to Olomana Golf Links, Inc. ("OGL") by way of a public auction for a term of 40 years commencing on May 4, 1967 and expiring on May 3, 2007. The Board at its meeting of October 28, 1994, under agenda item F-6, approved the extension of the lease term for an additional 25 years expiring on May 3, 2032. Subsequently, a revocable permit

[#7517] for the nursery operation of the golf course was issued around 1992 to OGL too.

Around May 2012, pursuant to a stock purchase agreement for the entire 100% stock acquisition of OGL, Hawaii OGL LLC became the tenant and permittee under GL 4095 and RP 7517 respectively.

Recently, Hawaii OGL LLC submitted a request for consent regarding the transfer of the interest of the lease and the revocable permit, through a stock purchase agreement, to JNC USA, Inc. The incoming buyer will continue to operate the golf course pursuant to the terms and conditions of the lease and revocable permit. Mr. Jinkook "Jim" Hwang and Mr. Ed Kageyama, under JNC USA, Inc. will oversee the future operation of the golf course. A short description for them prepared at **Exhibit E** indicates their relevant background and experience in managing the golf course.

As part of the transaction to pay the purchase price, JNC USA, Inc. will obtain a mortgage from Hawaii OGL LLC for an amount of $2,000,000. Staff recommends the Board consent to the mortgage mentioned above.

Staff also recommends the Board authorize the continuation of the revocable permit, because it provides the nursery product for the golf course. The encumbered State land [Parcel 12] is landlocked, and legal access is a requirement for a long term disposition.

The seller is in compliance with the terms and conditions of the lease in regards to the rent, liability insurance and performance bond. Site inspection shows that the subject area has been maintained in a satisfactory manner.

The purchaser has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

No agency or interest groups were solicited for comments, as there will be no changes in the existing use of the property. There are no other pertinent issues or concerns. Staff does not have any objection to the request for consent to assign and the mortgage.

RECOMMENDATION: That the Board

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200, HAR, this project will probably have minimal or no significant effect on the environment and is therefore exempt from the preparation of an environmental assessment.

2. Consent to the Stock Purchase Agreement regarding General Lease No. S-4095 between Hawaii OGL LLC and JNC USA, Inc. subject to the following:

   A. The standard terms and conditions of the most current consent form, as may be amended from time to time;

B. Review and approval by the Department of the Attorney General; and

C. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

3. Consent to the mortgage between JNC USA, Inc., Mortgagor, and Hawaii OGL LLC, Mortgagee, subject to the following:

A. The loan proceeds shall be used for the purposes as stated in "Use of Loan Proceeds" above. The Lessee shall maintain records of loan expenditures which may be inspected by the Department;

B. The standard terms and conditions of the most current consent to mortgage form, as may be amended from time to time;

C. Review and approval by the Department of the Attorney General; and

D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

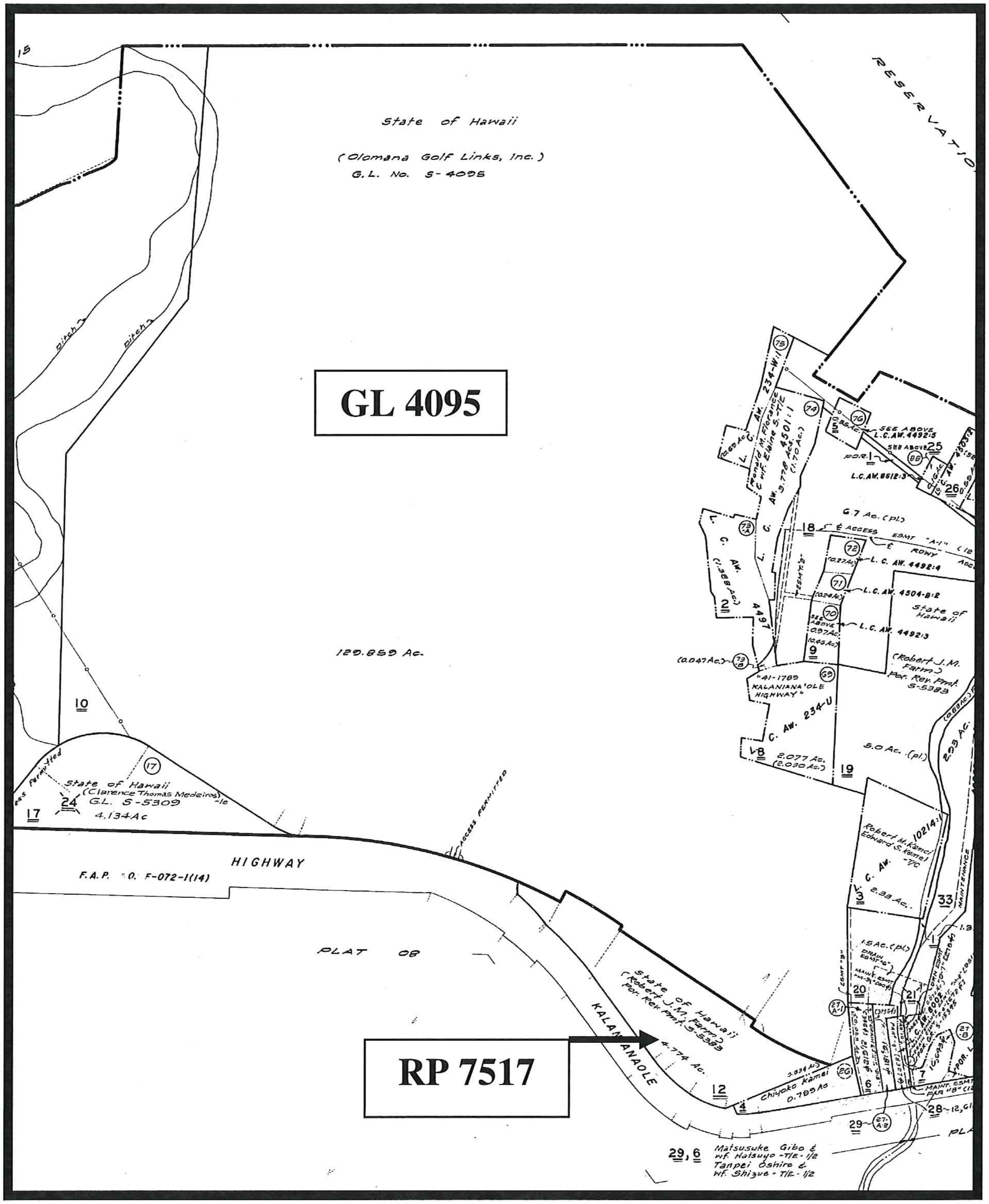
Barry Cheung

Barry Cheung
District Land Agent

APPROVED FOR SUBMITTAL:

Suzanne D. Case

Suzanne D. Case, Chairperson



TMK (1) 4-1-013:010 and 012

EXHIBIT A

JOHN WAIHEE
GOVERNOR OF HAWAII

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
DIVISION OF LAND MANAGEMENT
P. O. BOX 621
HONOLULU, HAWAII 96809

AQUACULTURE DEVELOPMENT PROGRAM
AQUATIC RESOURCES
CONSERVATION AND ENVIRONMENTAL AFFAIRS
CONSERVATION AND RESOURCES ENFORCEMENT
CONVEYANCES
FORESTRY AND WILDLIFE
LAND MANAGEMENT
STATE PARKS
WATER AND LAND DEVELOPMENT

September 14, 1990

Board of Land and
Natural Resources
Honolulu, Hawaii

Subject: Staff Recommendation to Amend the Assignment of Lease Evaluation Policy

At its meeting of December 15, 1989 under agenda Item F-10, attached hereto and incorporated herein by reference, the Board adopted an Assignment of Lease Evaluation Policy to conform with Act 104, Session Laws of Hawaii 1989.

However, the staff realized that for subsequent assignments of leases, the evaluation procedure was not explicit. The policy mirrored the statute and only mentioned improvements as the sole investment of the lessee. Inequities may therefore result when existing tenant-owned improvements are transferred as part of the consideration for the assignment.

As a solution, an additional section would be included in the policy for those assignments that do include the purchase of existing tenant-owned improvements.

Briefly, it requires redefining the expired term to be the holding period and the consideration paid to be the value of improvements and trade fixtures, all other items and procedures remaining the same, to insure that the second, third, or any subsequent assignment will be treated in the same manner as the first. A typical example would be included as shown by Schedule E.

Secondly, financial institutions have expressed concerns that in the event of foreclosure or sale, the premium, if any, may prevent them from recovering their advances. The legislature did consider measures to provide relief and during the last session, passed Act 242, Session Laws of Hawaii 1990 (approved June 25, 1990) which reads in part:

"provided further that with respect to state agricultural leases, in the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid;"

APPROVED BY THE CHAIRPERSON OF THE BOARD OF LAND AND NATURAL RESOURCES ON
SEPT 14, 1990

ITEM F-21

EXHIBIT "B"

Although we are of the opinion that all leases should be treated equally, the Act only addresses agricultural leases. At this time, the staff proposes to adopt the language of the Act to allow financial institutions to recover their advances first before any premiums are paid to the state but for agricultural leases only.

Whether to extend the right to all lessees will be discussed further with the Office of the Attorney General and, if a favorable decision is reached, will be brought before the Board at a later date.

Thirdly, when state-owned improvements are leased, neither the statute nor the policy recognizes the usual improvement renovation requirement in state leases. It is proposed that the actual expenditures of the lessee to renovate state-owned improvements be recognized as being tenant-owned improvements for consideration in the policy.

If the Board concurs with the previous recommendations, for clarification purposes, it is further proposed that the language in Schedule D be revised to conform to the language used in the narrative on Schedule E.

RECOMMENDATION:

That the Board:

A. Approve to include a section and schedule, attached hereto and incorporated herein by reference, to address subsequent assignments of leases.

B. Approve to include a section providing that, for agricultural leases only, in the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid.

C. Approve to include a section recognizing the required expenditures to renovate state-owned improvements as being tenant-owned improvements.

D. Approve to amend the language of Schedule D to conform to the language of Schedule E.

Respectfully submitted,

W. Mason Young

W. MASON YOUNG
Land Management Administrator

APPROVED FOR SUBMITTAL:

WILLIAM W. PATY, Chairperson

8. Subsequent Assignments

If the consideration for any subsequent assignment includes the purchase of existing tenant owned improvements, the evaluation will be conducted in a similar manner as the first assignment. An example is shown on Schedule E.

Using Schedule E, the consideration the assignor paid less included inventory and any premiums will be used to obtain the adjusted depreciated cost of improvements and trade fixtures. Also, the Base Year is redefined to be the date the assignor received the Consent of the Board to occupy the premises. The holding period (redefined Base Year to assignment date), or actual occupancy of the assignor, is used in place of the "expired term" when calculating depreciation. Depreciation will be calculated by dividing the holding period by the whole term of the lease (The whole term will remain unchanged).

The change in the CCI will be reflected by comparing the CCI for the redefined base year to the most current CCI.

The holding period will be the basis for determining the appropriate premium percentage. Subtracting the included inventory and any premiums from the consideration the assignor paid will result in a reassessment of the market value of the improvements. If additional improvements were constructed by the assignor, they will be treated in the same manner as improvements constructed by an original lessee.

The excess of subtracting the adjusted depreciated consideration the assignor <u>paid</u> and the adjusted depreciated cost of additional improvements, if any, from the consideration the assignor <u>received</u> will be used against the appropriate premium percentage to determine the amount payable to the state.

9. Rights of Holders of Security Interest-Agricultural Leases only

In the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid.

10. When state-owned improvements are included in the leased premises, improvement renovation requirements shall be recognized as being tenant-owned improvements for evaluation in the policy.

In other words, the total expenditure of the lessee to fulfill the requirement would be treated as though a new improvement was constructed.

Schedule E. Subsequent Assignment of Lease Calculations

1. Subtract from the consideration the assignor received for the assignment that amount, if any, that is attributable to inventory to derive the net consideration received.

2. Subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to inventory. Also, subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to premiums. The net consideration paid is now defined to be the value of improvements as of the date of the occupancy by the assignor.

3. Using the result from no. 2, calculate the Adjusted Depreciated Value of Improvements or Renovations (see Schedule A).

4. Subtract the amount derived by no. 3 from the amount in no. 1 to determine the amount by which the consideration received for the assignment, whether by cash, credit, or otherwise, exceeds the adjusted depreciated value of improvements being transferred to the assignee.

5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

An assignor is assigning a lease 107 months after receiving the consent of the Board. Occupancy or the holding period is defined to be 107 months. The consideration received is $1,000,000.

The consideration paid by the assignor was $600,000 while the current year CCI and redefined base year CCI were 156.4 and 121.1, respectively. The whole term was 408 months.

No inventory was included in either consideration. However, a premium of $45,055 was paid to the state by the previous occupant from the $600,000 consideration.

1. Net Consideration Received: $1,000,000

2. Consideration Paid: $600,000 - Assignor previously paid
   Premium: - 45,055 paid premium to State previously
   Net Consideration Paid: ($554,945)

3. Adj Value Consideration (improvements):
   $$\$554,945 \times \frac{156.4}{121.1} = \$716,708$$

   Depreciation:
   $$\$716,708 \times \frac{107 \text{ mos.}}{408 \text{ mos.}} = -187,960$$

   Adj Dep Value Consideration: - 528,748

4. Excess: $ 471,252

5. Premium: Percentage: 45% $ 212,063

Schedule D. Assignment of Lease Calculations

1. Subtract [the amount, if any, of] from the consideration for the assignment that amount, if any, that is attributable to inventory.

2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).

3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).

4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and no. 3 from the amount in no. 1 above.

5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of $600,000.

The initial cost of the improvements was $500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was $1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:			$600,000
2.	Adj Cost Imp/Ren:	sch A	$591,887	
	Depreciation:		- 82,690	
	Adj Dep Cost Imp/Ren:			-509,197
3.	Adj Cost Trade Fixtures:	sch B	1,705	
	Depreciation:		- 1,012	
	Adj Dep Cost Trade Fixtures:			- 693
4.	Excess:			$ 90,110
5.	Premium:	Percentage:	50%	$ 45,055

JOHN WAIHEE
GOVERNOR OF HAWAII

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AQUACULTURE DEVELOPMENT PROGRAM
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LAND MANAGEMENT
STATE PARKS
WATER AND LAND DEVELOPMENT

December 15, 1989

Board of Land and
Natural Resources
Honolulu, Hawaii

Gentlemen:

Subject: Resubmittal - Staff Recommendation to Adopt an Assignment of Lease Evaluation Policy to Conform with Act 104, Session Laws of Hawaii 1989

During the 1989 legislative session, Chapter 171-36(a)(5) was amended, effective May 24, 1989, to read in part:

> "... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

Because the Department of Transportation also administers leases using the same statutes, they have developed a procedure to evaluate lease assignments with input from DLNR staff. The policy being proposed is an adaptation from the DOT procedure but will only be applicable to leases from which the state can receive premiums as determined by the Attorney General. It should also be noted that preparation and passage of the legislative act was largely the result of DOT's efforts.

To implement the statute, the proposed policy would use indices obtained from the U.S. Department of Labor, Bureau of Labor Statistics, to derive the depreciated cost of improvements and trade fixtures being transferred to the assignee. Using an index is recommended since it is a faster, simpler method and will eliminate the added expense of hiring an independent appraiser or cost estimator. However, for lessees that construct their own building, they alone will be given the option of asking for an appraisal (at their expense) to determine the value of the improvements to obtain due credit for their efforts.

All lessees will be required to provide information and/or evidence on actual costs of construction of all improvements or renovations (already a condition in leases with improvement requirements) and the purchase price of trade fixtures which will be maintained in the lease file along with the necessary indices. Lessees will also be required to provide an inventory of all personal property placed on the premises.

AS AMENDED
APPROVED BY THE BOARD OF
LAND AND NATURAL RESOURCES
AT ITS MEETING HELD ON

DECEMBER 15, 1989

ITEM F-10

As shown on Schedule D, the evaluation typically begins by analyzing the consideration for the assignment to eliminate that portion attributable to inventory.

The adjusted depreciated cost for improvements or renovations is calculated by using the Construction Cost Index (CCI) for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year) multiplied by the original cost of the improvements or renovations. Depreciation, calculated by dividing the expired term of improvements or renovations by the whole term (completion date to lease expiration date) and multiplied by the adjusted cost, is subtracted from the adjusted cost. An example is shown on Schedule A.

For trade fixtures, the adjusted depreciated cost is similarly calculated by using instead the Consumer Price Index (CPI) for the evaluation year divided by the CPI for the purchase year (base year) against the original cost. The depreciation is calculated by dividing the expired life by the estimated life of a particular item and multiplied by the adjusted cost as indicated on Schedule B.

The excess is the amount, if any, derived by subtracting the depreciated value of the improvements or renovations and trade fixtures from the consideration for the assignment.

No other deduction is allowed as the statute only recognizes tangible items (intangibles such as "goodwill", business name recognition, etc., are not deductible).

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed. The sliding scale, as shown on Schedule C, will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

This item was deferred at the Board's November 17, 1989 meeting.

RECOMMENDATION:

That the Board approve to adopt the Assignment of Lease Evaluation Policy, attached hereto as Exhibit A, to conform with Act 104, Session Laws of Hawaii 1989.

Respectfully submitted,

W. Mason Young

W. MASON YOUNG
Acting Land Management Administrator

APPROVED FOR SUBMITTAL:

WILLIAM W. PATY, Chairperson

ASSIGNMENT OF LEASE EVALUATION POLICY

1. Enabling Statute

Act 104, effective May 24, 1989, amended Chapter 171-36(a)(5) to read in part:

"... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

2. Qualifying Leases

The evaluation for premium determination will only be applicable to leases from which the state can receive premiums as determined by the Attorney General.

3. Prior Approval

Prior to giving its consent to an assignment, DLNR must receive (i) the name, legal composition and address of any proposed assignee, (ii) a complete copy of the purchase agreement and the proposed assignment agreement, including the total consideration to be paid by the assignee for the assignment whether by cash, credit or otherwise, and (iii) the best available financial statement or balance sheet no older than 1 year prior to date of purchase agreement of the proposed assignee or any other such statement, audited or certified as correct by a financial officer of the proposed assignee.

Assignments of lease shall not be entered into until the Attorney General has reviewed the proposed assignment and the Land Board have given their approval. Such assignments shall be entertained only if they meet the criteria set forth in Section 171-36(a)(5), HRS.

4. Qualifications of Assignee

If qualification was required of a lessee as a pre-condition of the lease, the prospective assignee must also be qualified to assume the lease.

5. Consideration to be Paid

Prior to review by the Attorney General and approval by the Land Board, the lessee (assignor) must present with written evidence of the consideration to be paid by the assignee and any other cost data that the state may require.

6. Payment of Premium

The act permits the state to receive from the lessee (assignor) a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The value of the inventory of merchandise and any other tangible assets in the sale of a business shall be deducted from the consideration paid. The appropriate cost index is then applied to determine the adjusted depreciated cost.

All lessees shall be required to furnish the state with the actual costs of construction of all improvements and renovations within 30 days after its completion as well as the purchase costs of all trade fixtures acquired for the lessee's operation on the premises within 30 days after their purchase. Lessees shall be required to furnish evidence of the actual costs by copy of the construction contract, receipts or otherwise. Lessees shall also be required to furnish an inventory of all personal property placed on the premises. Records of all costs incurred by the lessee for construction of improvements or renovations as well as trade fixtures submitted by the lessee shall be maintained in the lease file and shall include the Construction Cost Index for Apartments, Hotels, Office Buildings (CCI) and the Honolulu Consumer Price Index for All Urban Consumers (CPI) as published by the U.S. Department of Labor, Bureau of Labor Statistics for the year construction is completed.

The replacement cost for improvements or renovations is calculated by using the CCI for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year). The result is then multiplied by the original cost of the improvements or renovations. For trade fixtures, the cost is similarly calculated by using the CPI for the purchase year (base year) and the evaluation year.

Depreciation of improvements and trade fixtures will be determined on a straight line basis. Depreciation of improvements or renovations will be determined in the same proportion that the expired term of the improvements or renovations bear to the whole term. The whole term will be from the date the construction of the improvements or renovations are completed until the termination date of the lease. Depreciation of trade fixtures will be determined in the same manner, except that the whole term will be the anticipated life of the trade fixture.

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed in accordance with Schedule C. The sliding scale will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

Only in cases where the lessee has essentially constructed or directed the construction of its own improvements, may the lessee be given the option of paying for an appraiser, but to be selected by the state, to determine the valuation of the improvements.

Schedule D attached provides a typical example of the evaluation calculations using Schedule A to calculate the replacement cost for improvements or renovations and depreciation, Schedule B to calculate the cost and depreciation for trade fixtures, and Schedule C to obtain the premium percentage.

7. Non-qualifying Deductions

The statute only recognizes tangible items. Intangibles such as "goodwill", business name recognition, etc., are <u>not</u> deductible.

SCHEDULE A. <u>Adjusted Depreciated Cost of Improvements or Renovations</u>

1. Adjusted Cost of Improvements or Renovations

Multiply the actual cost of the improvements or renovations by the most recent U.S. Construction Cost Index for Apartments., Hotels, Office Buildings (CCI)* and divide the result by the CCI of the year construction was completed (base year) to get the adjusted cost of improvements or renovations.

2. Depreciation

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the improvements or renovations by the whole term of the improvements or renovations, the whole term beginning on the date the improvements or renovations are completed to the expiration date of the lease. Multiply the adjusted cost of the improvements or renovations by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Improvements or Renovations

Subtract the depreciation from the adjusted cost of improvements or renovations. The balance is the depreciated cost of improvements or renovations.

*As published by the U.S. Department of Labor, Bureau of Labor Statistics

<u>Example</u>

Actual cost:	$500,000
CCI (most recent):	121.1
CCI (base year):	102.3
Expired term:	57 mos.
Whole term:	408 mos.

1. Adjusted Cost of Improvements or Renovations

$$\text{Actual Cost} \times \frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$$

$$\$500{,}000 \times \frac{121.1}{102.3} = \$591{,}887$$

2. Depreciation

$$\$591{,}887 \times \frac{57 \text{ mos.}}{408 \text{ mos.}} = \$82{,}690$$

3. Adjusted Depreciated Cost of Improvements or Renovations

$$\$591{,}887 - \$82{,}690 = \underline{\$509{,}197}$$

SCHEDULE B. Adjusted Depreciated Cost of Trade Fixtures

1. Adjusted Cost of Trade Fixture

Multiply the actual cost of the trade fixture by the most recent Honolulu Consumer Price Index for All Urban Consumers (CPI)* and divide the result by the CPI of the year in which the purchase was made (base year).

2. Depreciation

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the trade fixture by its anticipated life. Multiply the adjusted cost of the trade fixture by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Trade Fixtures

Subtract the depreciation from the adjusted cost of the trade fixture. The balance is the depreciated cost of the trade fixture.

*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Example

Refrigerator	
Actual cost:	$1,510
CPI (most recent):	118.1
CPI (base year):	104.6
Expired term:	57 mos.
Whole term: (Anticipated life)	96 mos.

1. Adjusted Cost of Trade Fixture

$$\text{Actual Cost} \times \frac{\text{CPI (most recent)}}{\text{CPI (base year)}}$$

$$\$1,510 \times \frac{118.1}{104.6} = \$1,705$$

2. Depreciation

$$\$1,705 \times \frac{57 \text{ mos.}}{96 \text{ mos.}} = \$1,012$$

3. Adjusted Depreciated Cost of Trade Fixture

$$\$1,705 - \$1,012 = \$\ 693$$

Schedule C. Premium Percentages

1. For the first 5 years, the premium is 50% of the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The percentage will decrease by 5% after every 5 years of the total term has elapsed.

Years	Percentage
1 - 5	50%
6 - 10	45%
11 - 15	40%
16 - 20	35%
21 - 25	30%
26 - 30	25%
31 - 35	20%
36 - 40	15%
41 - 45	10%
46 - 50	5%
51 -	0%

As an example, if a 55 year lease was assigned after 57 months, the premium percentage would be 50%. If the assignment occurs after 130 months (10+ years), the percentage would be 40%.

2. The Board of Land and Natural Resources may impose a ten percent (10%) surcharge if the assignor has not performed lease covenants to improve or use the property.

Schedule D. Assignment of Lease Calculations

1. Subtract the amount, if any, of the consideration for the assignment that is attributable to inventory.

2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).

3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).

4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and no. 3 from the amount in no. 1 above.

5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of $600,000.

The initial cost of the improvements was $500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was $1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:		$600,000
2.	Adj Cost Imp/Ren:	$591,887	
	Depreciation:	- 82,690	
	Adj Dep Cost Imp/Ren:		-509,197
3.	Adj Cost Trade Fixtures:	1,705	
	Depreciation:	- 1,012	
	Adj Dep Cost Trade Fixtures:		- 693
4.	Excess:		$ 90,110
5.	Premium: Percentage:	50%	$ 45,055

OLOMANA GOLF LINKS, INC.

770 Auloa Road
Kailua, Hawaii 96734

March 2, 2016

Mr. Barry Cheung
State of Hawaii
Department of Land and Natural Resources
Land Division
1151 Punchbowl Street, Room 220
Honolulu, Hawaii 96813

RE: Olomana Golf Links, Inc., Waimanalo, Oahu
Lease Transfer Calculations

Dear Mr. Cheung:

We are transmitting to you the attached Schedule A – Assignment of Lease Calculations for your review and approval. Appendix B – Adjusted Cost of Improvements and Appendix C – Adjusted Cost of Trade Fixtures are also included as supporting documents.

Thank you for your consideration in this matter.

Sincerely,

Bing Yang
President

EXHIBIT "C"

You replied to this message on 3/9/2016 1:10 PM.

From: Harry Chang <hchang@pacificlinks.com>   Sent: Wed 3/9/2016 11:54 AM
To: Cheung, Barry W
Cc: Bing Yang; Jennifer Chiu
Subject: RE: Lease Transfer Calculations

Barry: Trust you are having a great day.

In line with your request on the "bump-up" of value associated with the building improvements we offer the following 3 facts/submission:

(1) The acquisition of Olomana by PLI at $4.5M was carried out on an arm's length basis accordingly this acquisition was made at fair market value;

(2) As at the date of acquisition by PLI the building and equipment were old and out-dated consequently management had to decide as to a) demolition and rebuild the building or b) complete renovation of the existing building. The decision was made in line with (b) to achieve a complete renovation of the existing building. We have documentation on hand from a construction organization that were in charge of the renovation project. The total cost of complete renovation was in the amount of $2.75M; and

(3) As a result of (1) and (2) above and the acquisition purchase price being at $4.5M, during the 2013 financial year-end management had allocated this $4.5M as follows: a) equipment $0.5M b) building itself $1.25M and c) building improvements of $2.75M

In summary we feel that the consideration of $4.5M paid for Olomana and the relevant purchase price allocation is fully justifiable and reasonable under the circumstances i.e. old equipment and building and management wanted to establish a sound golf business at Olomana that will continue to increase in overall business value.

Please let me know if you have any additional questions.

Harry Chang, CPA, CA

OLOMANA GOLF LINKS, INC.

Schedule A - Assignment of Lease Calculations

1 Net Consideration (Consideration less amount for inventory)			
	Consideration (Sales Price)	3,000,000	
	Inventory (Pro Shop inventory at fmv)	(36,611)	
	Net Consideration		2,963,389
2 Adjusted depreciated cost of improvements or renovations (Please see attached Appendix B)			(2,788,997)
3 Adjusted depreciated cost of trade fixtures (Please see attached Appendix C)			(174,392)
4 EXCESS- Amount of consideration for the assignment that exceeds the depreciated costs in the above amounts in #2 and #3			0
5 Premium at 5% of line 4			**$0.00**

Appendix B - Adjusted Cost of Improvements

Item	Date of Purchase	CCI for Base Year	CCI for Current Year	Cost	Depreciation	Adjusted Cost	Comments
Land Improvements	9/21/2012	99.5	114.5	40,162.74	4,904.69	41,312.73	Golf Course Drainage Improvements
Building Improvements	12/17/2012	99.9	114.5	2,715,894.02	365,127.47	2,747,683.99	Building Purchase, Replacement of building fixtures
				2,756,056.76	**370,032.16**	**2,788,996.73**	

*CCI taken from US government Census Bureau

Appendix C - Adjusted Cost of Trade Fixtures

Item	Date of Purchase	CPI for Base Year	CPI for Current Year	Cost	Depreciation	Adjusted Cost	Comments
Equipment	7/31/2012	131.731	135.334	482,566.35	330,614.33	165,150.79	Motors & Electrical
Office Equipment	9/7/2012	132.988	135.334	20,429.22	11,548.12	9,241.49	Telephone Equipment etc.
				502,995.57	**342,162.45**	**174,392.27**	

* CPI taken from US Bureau of Labour Statistics

EXEMPTION NOTIFICATION

Regarding the preparation of an environmental assessment pursuant to Chapter 343, HRS and Chapter 11-200, HAR

Project Title:	Consent to Stock Purchase Agreement and Mortgage
Project / Reference No.:	16OD-025
Project Location:	Waimanalo, Koolaupoko, Oahu, TMK (1) 4-1-013:010 & 012
Project Description:	Transfer of Business through Stock Purchase Agreement
Chap. 343 Trigger(s):	Use of State Land
Exemption Class No.:	In accordance with Hawaii Administrative Rule Section 11-200-8 and the Exemption List for the Department of Land and Natural Resources approved by the Environmental Council and dated June 5, 2015, the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, Item 47. There will be no changes in the existing use of the subject properties. Staff does not anticipate the request will result in major alterations in the conditions of land, water and vegetation.
Recommendation:	That the Board finds this project will probably have minimal or no significant effect on the environment and is presumed to be exempt from the preparation of an environmental assessment.

Suzanne D. Case, Chairperson
Date 3/13/16

EXHIBIT D

Professional Profiles

Jinkook "Jim" Hwang

Mr. Hwang has been in the international golf industry for 18 years having worked in Korea, Japan, Vietnam, Arizona and South Carolina. Mr. Hwang is currently CEO and a principal with IMG GCM KOREA, operating courses in Korea, Japan and Vietnam. Mr. Hwang is also responsible for business development for IMG GCM KOREA in Asia. Current courses under Mr. Hwang oversight are:

- Beacon Hills Golf Club
- Sky Lake Golf Resort
- CT Sphinx Golf Club
- Golfzon County Golf Club

Ed Kageyama, PGA

Mr. Kageyama has been in the Hawaii golf industry for roughly 25 years. Mr. Kageyama is a Class A member in the PGA and Aloha Section PGA currently overseeing the Ka'anapali Golf Courses (Maui), Puakea Golf Course (Kauai) and Kukuiolono Park & Golf Course (Kauai). Mr. Kageyama is also responsible for Asia-Pacific business development in his role as regional manager for Billy Casper Golf, the largest domestic golf management company with roughly 150 courses within its portfolio. Mr. Kageyama has also served as Aloha Section PGA officer and board member including past president; and a board member of the Hawaii Visitors and Convention Bureau (HVCB).

Mr. Kageyama has been recognized as a leading golf professional by winning numerous Aloha Section PGA awards included Golf Professional of The Year in 2014 and 2006. He has also been internationally recognized by *Golf Inc. Magazine* as "Top 20 Most Admired Operators" in 2010 and 2008. In 2013, Mr. Kageyama was also recognized as one of the "Most Innovative People In Golf" by *Golf Inc. Magazine*.

Mr. Kageyama has been a "Swoosh Elite" Nike Golf national advisory staff member for more than 10 years.

Mr. Kageyama has been the golf program director at Punahou School since 2007. In addition to being program director, he actively serves as head coach for both the boys and girls varsity 1 teams winning 11 State titles.

EXHIBIT " E "