

Purchaser Due Diligence: About CHA Group and HPMC

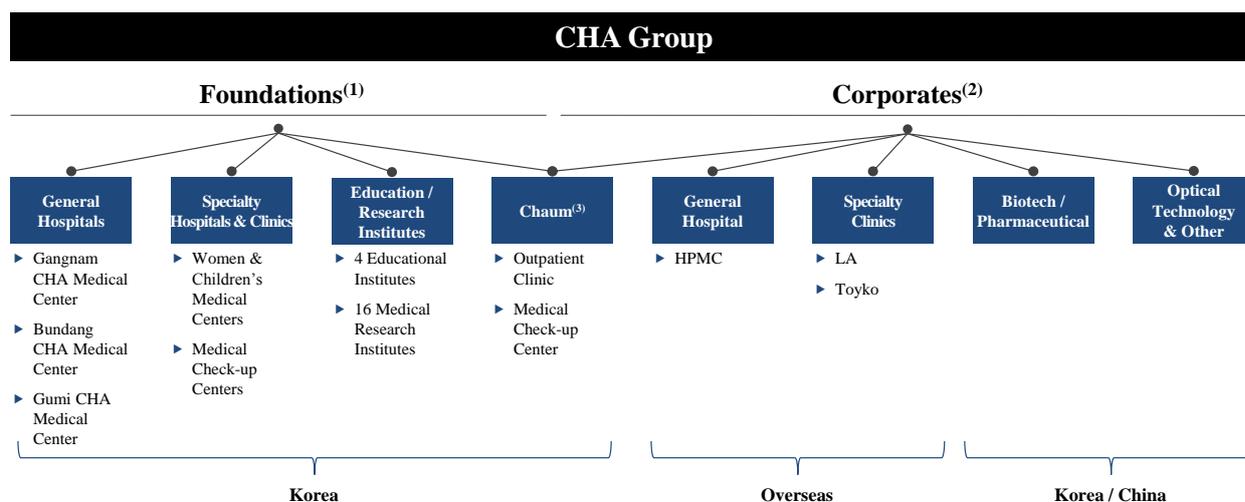
CHA Group (the “Group”) is a global healthcare enterprise with businesses across the healthcare spectrum, founded in 1960 and based in Korea. The Group currently owns and operates (i) 14 general and specialty hospitals and clinics; (ii) 4 educational institutes including the renowned CHA University in Korea; (iii) 16 medical research institutes; and (iv) other businesses relating to biotech, pharmaceutical, and optical device manufacturing. The Group’s businesses are built around two major entities: *Sung Kwang Medical Foundation* (a not-for-profit entity, jointly with Sung Kwang Education Foundation and Sewon Medical Foundation, responsible for the Group’s Korean hospitals and medical school operations) and *CHA Biotech Co., Ltd.* (a publicly listed entity primarily focused on biotech and optical technology alongside CHA Diostech Co., Ltd. and other subsidiaries). CHA Group today continues to build upon its position as a leading comprehensive healthcare provider and global medical innovator through its extensive R&D and biotech capabilities.

CHA Group is deeply committed to providing the highest quality patient care, and seeks to achieve this by deploying state-of-the-art medical technology and continuously enhancing the caliber of its medical professionals. Since inception, the Group not only has grown in its reputation and size, but has also sought to grow alongside the communities it serves.

CHA Group commenced its first hospital operation in the U.S. in 2005 through the acquisition of Hollywood Presbyterian Medical Center (“HPMC”, and collectively with CHA Group, “we”), a 434-bed safety net hospital serving a broadly diverse and mainly low income population in Los Angeles. HPMC is dedicated to providing the highest standard of care to its surrounding community and features an intensive care unit, a telemetry unit, an acute rehabilitation unit, labor and delivery/obstetrics unit, a 24-hour Emergency Department, an 89-bed skilled nursing unit, and 8 surgical operating rooms. HPMC also operates a neonatal intensive care unit in collaboration with the University of Southern California’s Keck School of Medicine. In addition, HPMC offers cardiac care and neurology services and maintains a medical staff with a wide array of medical specialties.

Since the acquisition almost a decade ago, CHA Group has successfully turned around then financially troubled HPMC into a viable, profitable and sustainable hospital operation with peer-leading performance metrics. The Group’s personnel, including the HPMC management team and corporate officers in Los Angeles who have accomplished this turnaround, firmly believe that a similar success can be replicated for DCHS’s LHMs. We desire to leverage this experience and work closely with DCHS personnel towards revitalizing and sustaining DCHS’s legacy institutions and programs for the future.

CHA Group Organization Chart



(1) Includes Sung Kwang Medical Foundation, Sung Kwang Education Foundation and Sewon Medical Foundation.

(2) Includes CHA Biotech, CHA Diostech and their subsidiaries.

(3) Chaum is a state-of-the-art outpatient clinic providing an extensive range of highly-personalized health and well-being services for prevention, treatment and management of diseases.

(1) Quality of Care Measures

CHA Group

CHA Group has dramatically improved the quality of care to the patients it serves since its first hospital was established in 1960. As a result of our continued emphasis on quality excellence and compassionate care, CHA Group has received numerous awards and recognitions, including:

Year	Recipient	Award	Certificate Authority
2014	Bundang CHA Medical Center	Designated as Infant Specialized Hospital	Ministry of Health and Welfare, Republic of Korea
2013	Bundang CHA Medical Center	Selected as the Best Hospital for Emergency Care	Ministry of Health and Welfare, Republic of Korea
2013	Bundang CHA Medical Center	Designated as First Class Hospital for Treatment of Stomach Cancer, Liver Cancer, and Colorectal Cancer	Health Insurance Review & Assessment Service
2012	Gangnam CHA Medical Center	Hospital Service Agreement with Health Authority Abu Dhabi	Ministry of Health and Welfare, Republic of Korea
2010	Gangnam CHA Medical Center	Received Award for Women’s Healthcare Excellence	Medical Korea
2009	Gangnam CHA Medical Center	Received “A” grade based on assessment results of quality assurance of all hospitals in Korea	Ministry of Health and Welfare, Republic of Korea
2009	Bundang CHA Medical Center	Winner of the President’s Award at the 35 th National Quality Management Contest	Korean Standards Association
2008	Bundang CHA Medical Center	Received “A” grade in all categories of clinical indicator	Ministry of Health and Welfare, Republic of Korea
2007	Bundang CHA Medical Center	Selected as Infant-Friendly Hospital	UNICEF

HPMC

HPMC’s core mission is “Quality Care with Compassion and Respect.” To this end, HPMC is dedicated to constantly improving patient care outcomes through the use of quality indicators that are tracked monthly. HPMC follows the Joint Commission-set standards on core measures and focuses efforts on the use of data to improve the entire healthcare delivery process.

HPMC strives to achieve higher quality via its Core Measure Champions program, which enlists HPMC employees and physicians who act as liaisons between the Quality Management Department and the clinical staff on the nursing floors; these employees and physicians are responsible for communicating strategic initiatives, and are instrumental in providing clinical staff with the information they need to improve patient care outcomes. Acute Myocardial Infarction (AMI), Heart Failure (HF) and Venous Thromboembolism (VTE) for both in-patient and out-patient procedures are just some of the core measures that have seen steady improvements since the inception of the Core Measure Champions Program – AMI compliance has increased 4% since 2013 and is currently at 96.7%; HF compliance has seen a 7% increase since 2012 and is stable at 96% compliance as of 1Q 2014; and VTE core measures at HPMC have also seen a 10% increase since 2012 and are currently at 87.5% compliance, which is an all-time high for HPMC.

HPMC continues to actively oversee and facilitate improvement of care and service opportunities. Through its Quality Management Department, HPMC takes a systematic and integrated approach to designing, measuring, assessing and improving the services provided. Key programs include continuous monitoring and surveillance, proactive risk assessment and opportunity identification, education, process improvement referrals, quarterly reporting, data collection to assist in physician credentialing and professional practice evaluations.

□ Awards

Year	Award	Certificate Authority
2014	Baby-Friendly Hospital Designation	World Health Organization / UNICEF
2014	STEMI (Heart Attack) Certification	Los Angeles County Emergency Medical Services
2013	Triennial Survey – Full Accreditation	The Joint Commission/Center for Medicaid Services
2013	CAP Laboratory Survey – Full Accreditation Received	College of American Pathologists
2013	Primary Stroke Center, Stroke Gold Achievement Award	The Joint Commission

In April 2014, HPMC was designated as a “Baby-Friendly” hospital by the World Health Organization and the United Nations Children’s Fund (“UNICEF”). Amongst 3,200 eligible hospitals, only 176 have received this esteemed designation, which underscores the gold standard of maternity care provided and HPMC’s successful promotion of baby bonding and breastfeeding.

In October 2013, HPMC celebrated the grand opening of a new state-of-the-art GI laboratory, equipped with an Olympus EVIS EXERA III system. The acquisition of this cutting-edge technology has facilitated more accurate gastrointestinal diagnoses, shorter procedure times, better overall patient experience and even higher standard of quality care.

In July 2013, HPMC received full accreditation from the Joint Commission as a Primary Stroke Center. Achievement of the certification signifies that HPMC’s services have the critical elements to achieve long-term success in improving outcomes. It is a premier signal to our community that the quality care we provide is effectively managed to meet the unique and specialized needs of stroke patients. Additionally, HPMC received the Stroke Gold+ Quality Achievement Award and was recognized as a recipient of the American Heart Association (“AHA”) Stroke Honor Roll.

□ Quality Measures

Measure	2012	2013	1Q 2014
AMI	88.5%	92.9%	94.5%
HF	85.0%	91.4%	95.5%
PN	96.7%	95.1%	89.5%
SCIP	95.3%	84.2%	90.8%
Elect. Del.	16.0%	12.7%	3.7%
C-Section	29.4%	30.9%	27.2%
VTE	66.6%	76.9%	85.4%
Influenza	55.0%	72.2%	89.5%
Stroke	N/A	92.5%	90.0%
Medication Errors Severity Rate	2.43	2.11	2.66
Patient Falls	1.32	1.58	1.87
Unadjusted Mortality rate	2.0%	2.4%	2.8%

SSI Rate	0.40	0.42	0.69
Central Line Bloodstream Infections	0.055	0.10	0.11
Ventilator-related Pneumonia	1.60	0.92	0.56
Urinary Tract Infections	0.37	0.53	0.00
Multi-drug Resistant Organism Isolates	0.14	0.13	0.23
C-Diff	0.52	0.31	0.40
Hand Hygiene	65%	70%	93%
Primary Cesarean Birth Rate	24%	25%	24%
Overall Cesarean Birth Rate	38%	39%	35%

☐ **Death Rate for Heart Failure Patients (n=342)**



☐ **Death Rate for Pneumonia Patients (n=266)**



(2) Patient Experience Data

The Hospital Consumer Assessment of Healthcare Providers and Systems (“HCAHPS”) Survey is the first national, standardized, publicly-reported survey of patients' perspectives of hospital care. HPMC continues to provide education and training to clinical and non-clinical staff and diligently monitors data in order to improve our patient experience. New and comparative data is reported to all HPMC directors during monthly Patient Experience Update Meetings, where management shares their ideas, experiences, and means of improvement with regards to patient satisfaction.

Equivalent survey is not available for CHA Group’s hospitals in Korea.

□ 2013 HCAHPS Unit Tracking (Year-to-date as of December 18, 2013)

Year to Date N Size			N Size 289	N Size 6	N Size 6	N Size 27	N Size 40	N Size 51	N Size 28	N Size 128	N Size 3
Report Units	National 50 th Percentile as of July 2013	National Percentile Ranking	HPMC	ICU	4S	5T	6T	10T	PV	OB	LD
HCAHPS Measure	Score		Positive Score								
Overall Hospital Rating	70	18	62 ↓	13	46	68	67	62	63	63	96
Recommend Hospital	71	19	62	16	80	67	62	58	59	63	96
Communication with Nurses	78	4	↑ 66	26	70	73	65	69	52	68	98
Communication with Doctors	81	4	72	22	53	68	71	61	58	82	98
Communication about Medicine	63	4	↑ 50	21	34	67	36	54	38	54	96
Responsiveness of Hospital Staff	66	6	54	16	59	70	48	45	51	57	96
Discharge Information	85	37	83	82	59	90	84	77	77	84	99
Pain Management	71	5	↑ 62	20	47	78	63	56	46	66	97
Cleanliness of the Hospital	72	4	↑ 59	41	84	73	56	64	58	55	67
Quietness of the Hospital	60	33	↑ 55	25	42	57	43	54	46	61	59
Care Transition Measures	N/A	N/A	48 Unadjusted	6 Unadjusted	33 Unadjusted	59 Unadjusted	45 Unadjusted	57 Unadjusted	45 Unadjusted	46 Unadjusted	83 Unadjusted

Note: Arrows indicate change from prior month report; better, worse, no change. Green indicates HPMC performance within ± 5% of National median or better.

(3) Community Relations + (6) Charity Care Information

CHA Group

CHA Group provides various community services, reaching outside the hospital walls for the benefit of the general public’s welfare via charity care, domestic & international medical volunteers, community volunteers, health professional education, health forums, free medical check-ups, donations, holiday events and other community benefit programs.

Since its founding in 1996, CHA University has provided full scholarships to all of their medical students. The scholarship program is premised on the principle that qualified students with the desire to serve patients should not be inhibited from receiving quality medical education by their financial circumstances. By and through having well-intended and well-educated physicians, CHA Group endeavors to create a virtuous circle that constantly strives to provide a better healthcare system for its patient communities. In this regard, the medical school epitomizes its founder’s commitment to providing the best possible education to future leaders in medicine.

Community Service Type	Annual (Approximate)
Free-of-charge medical care (on-site)*	\$500,000
Medical & non-medical community services (off-site outreach programs)	50–80 times; 2,000 check-ups per occasion
Health professional education & forum	284 lectures and forums
Medical University scholarship	\$4.5 million

* Note: Korea’s single payor system that provides medical insurance to all citizens significantly reduces the occurrence of charity care / bad debt; accordingly, this metric is not comparable between hospitals in the U.S. and Korea.

HPMC

HPMC is a steward for health in the community, hosting monthly lectures, health fairs and classes on campus for the general public. HPMC hosts annual mixers to educate patients and enhance their awareness on topics such as heart health and breast cancer, and the hospital’s Maternity Services Department offers monthly childbirth classes, breastfeeding courses and support groups led by lactation specialists in both English and Spanish.

In addition, HPMC and its dedicated physicians support and sponsor various regional health campaigns and partner with local advocacy groups to raise awareness.

As an important safety net hospital providing vital services to the broader Los Angeles community, HPMC is strongly dedicated to charity services and has provided \$278 million in charity care over the past 9 years since being acquired by CHA Group.

(US\$ in millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Charity Care	37.2	34.4	29.2	20.3	27.3	35.9	19.7	35.7	38.2	277.9

** Note: Includes both charity care and bad debt expenses at gross charges level.*

(4) Employee Relationship + (5) Physician Relationship

CHA Group

CHA Group currently has 685 physician and 2,745 non-physician employees. Korean regulations allow hospitals to directly employ physicians and CHA Group’s 685 physician base is comprised of 392 specialists, 234 residents and 89 interns.

HPMC

□ Employee Relationships

HPMC conducts annual Employee Surveys to ensure that our staff feels safe, comfortable and respected by the organization. The most recent survey was conducted in October 2013 and reflected excellent results with HPMC scoring above the national average in 13 out of 18 categories. Amongst employees who participated in the survey, an overwhelming 93% felt that HPMC’s culture reflected a determination to accomplish work goals. Overall, HPMC employees felt highly engaged with their peers, with 87% responding that their relationships with their co-workers are strong. An eagerness and enthusiasm for working towards the best possible outcomes was reflected in the responses of 94% employees who felt that all were putting in equal effort to achieve their goals as a unit. In addition, 88% of employees felt passionate about their work and were highly motivated by the goals, which HPMC continues to achieve. HPMC strives to maintain this positive employee relationship through a number of initiatives including (i) quarterly town-hall style meetings with the management team; (ii) a 90-day breakfast with the CEO for newly hired employees; (iii) annual programs to celebrate cultural diversity; and (iv) by recognizing employees for their outstanding services and dedication with Annual Service Recognition Luncheons, amongst others.

HPMC is a union hospital whose technicians are covered under SEIU-UHW and registered nurses under SEIU 121RN. Recently, HPMC successfully reached another three-year agreement with the SEIU bargaining unit. We firmly view SEIU as a key ingredient in our productive labor force as well as a valued business partner.

■ **Satisfaction Survey Summary**

	HPMC	Hospitals	Health Care and Social Assistance
Relationship With Management			
Communication between employees and senior management	58%	48%	54%
Autonomy and independence	69%	66%	69%
Recognition by management about your job performance	53%	49%	55%
Relationship with immediate supervisor	72%	69%	72%
Compensation			
Being paid competitively with the local market	58%	60%	56%
Work Environment			
Feeling safe in your work environment	73%	77%	79%
Relationships with co-workers	87%	81%	80%
Diverse and inclusive workforce	64%	60%	59%

* HPMC internal survey 2013; Comparative data by Gallup.

□ **Physician Relationships**

The medical staff at HPMC consists of an ethnically diverse group of highly skilled physicians who resemble our surrounding community. Currently, there are over 600 medical staff members, of whom 241 maintain active privileges. Our physician specialties include Internal Medicine, Cardiology, Surgery, Emergency Medicine, Pediatrics and Obstetrics & Gynecology.

HPMC places the utmost value on physician satisfaction. Senior leadership, supplemented with outreach liaisons, meets regularly with physicians and identifies critical operational issues relating to their practices. Examples include specialist availability, efficiency and quality of imaging services, care provided by the Emergency Department and availability of operating room time. By listening to and addressing physicians’ issues, HPMC has earned the referral relationships of physicians who have other choices for alignment (e.g., other hospitals, surgery centers, imaging centers, diagnostic and treatment facilities).

HPMC involves its physician leaders in developing the hospital’s strategic direction, programs, and services by holding monthly Joint Conference Committee Meetings to address medical staff issues in a forum format. The Joint Conference Committee Meetings focus on service line development, measurement and demonstration of quality of care, and other issues pertinent to medical practice. We have also introduced a monthly Physician–Nurse Collaborative Meeting, during which physicians and nurses communicate openly about issues regarding quality care and patient satisfaction.

HPMC emphasizes proactive and interactive communication with the medical staff, which has led to higher physician satisfaction, positive Managed Care relationships, increased physician leadership and involvement, and the vibrant creation of new programs and services championed by the medical staff.

■ **Examples of Physician-led Programs and Partnerships**

Dr. Marcel Filart leads the hospital’s onsite Senior Care Center, which provides diagnostic, therapeutic, preventive, and rehabilitative healthcare for the elderly patients in the community. Dr. Filart specializes in internal medicine for geriatric patients.

The Los Angeles Fetal Therapy Program, located at HPMC, is a partnership between the hospital, the University of California and Children’s Hospital of Los Angeles. Dr. Ramen Chmait, who leads the program, is the only physician in California to perform minimally-invasive in utero treatment to cure or reduce adverse outcomes from fetal physicians.

On July 1, HPMC will open its Specialty Care Center. The hospital has recruited 12 specialists in Cardiology, Neurology, Oncology, Orthopedics, General Surgery, Neurosurgery and Nephrology to share the space on campus and treat patients in a large scope of unique care.

The hospital contracts with Renaissance Imaging Center, led by Dr. Andrew Deutsch, on all diagnostic imaging for the Radiology department. The partnership gives physicians immediate access to diagnostic images after exams, which allows expedited treatment and convenient patient care.

■ **Examples of Physician Group Relationships**

HPMC has full risk contracts with AKM Medical Group, Global Care Medical Group, HealthCare Partners, Preferred IPA of California and San Judas Medical Group. HPMC also has positive working relationships with several IPAs in our service region, including AltaMed, Maverick Medical Group, Prudent Medical Group and Seoul Medical Group.

(7) Payor Mix

CHA Group

Korea has a single payor system with more than 96% of the citizens enrolled in National Health Insurance, an insurance program supervised by the Ministry of Health and Welfare.

HPMC

HPMC is a safety-net community hospital with a high Medi-Cal patient mix. Consequently, it receives significant supplemental funding in the form of DSH and QAF payments for its services.

□ **HPMC Payor Mix (2013)**

Payor	% of Total
Medi-Cal	45.0 %
Medicare	43.5 %
Commercial	6.8 %
Indigent & Other	4.7 %

** Payor mix by patient days. Medi-Cal Managed Care and Medicare Managed Care are included in Medi-Cal and Medicare, respectively.*

(8) Expectation Regarding Operating the DCHS Facilities Post-closing (ERDs, Pastoral Care)

Since CHA Group assumed ownership and began operation of HPMC, we have operated HPMC in a manner consistent with the Ethical and Religious Directives (“ERDs”) for Catholic Healthcare Services promulgated by the National Conference of Catholic Bishops. HPMC fully supports an on-site Chaplaincy Department and holds a daily Catholic mass in the Chapel that is open to all who wish to attend, regardless of faith or denomination. Our ongoing compliance with the ERDs is overseen by the Roman Catholic Archbishop for the Archdiocese of Los Angeles, as well as the California Attorney General.

(9) Recent Financial Performance

CHA Group (Key Operational and Financial Statistics)

	Beds	Calendar Year 2013		
		Revenue (\$mn)	Out-Patient	In-Patient
CHA Group	2,326	\$870	1,936,074	465,532

HPMC (Excerpt from Audited Financial Statement)



CHA HOLLYWOOD PRESBYTERIAN MEDICAL CENTER

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The General and Limited Partners
CHA Hollywood Presbyterian Medical Center:

Report on the Financial Statements

We have audited the accompanying financial statements of CHA Hollywood Presbyterian Medical Center, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of CHA Hollywood Presbyterian Medical Center as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Los Angeles, California
April 29, 2014

CHA HOLLYWOOD PRESBYTERIAN MEDICAL CENTER

Balance Sheets

December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$	
Patient accounts receivable, net of allowance for doubtful accounts of \$20,843,420 and \$16,068,580, respectively		
Other receivables		
Inventories		
Prepaid expenses		
Other current assets		
Due from related parties		
Total current assets		
Property and equipment, net		
Other assets		
Total assets	\$	
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$	
Accrued expenses		
Notes payable, current		
Other current liabilities		
Deferred rent, current		
Total current liabilities		
Notes payable, net of current portion		
Self-insurance reserves		
Deferred rent, net of current portion		
Other long-term liabilities		
Total liabilities		
Commitments and contingencies (note 9)		
General partner's capital		
Limited partners' capital		
Total partners' capital		
Total liabilities and partners' capital	\$	

CHA HOLLYWOOD PRESBYTERIAN MEDICAL CENTER

Statements of Income

Years ended December 31, 2013 and 2012

	2013	2012
Revenue:		
Patient service revenue, net of contractual adjustments and discounts	\$	
Provision for bad debt		
Net patient service revenue, less provision for bad debt		
Capitation revenue		
Other revenue		
Total revenue		
Selling, general, and administrative expenses:		
Salaries and related expenses		
Depreciation and amortization		
Insurance		
Tax and licenses		
Provider fee		
Purchased services		
Professional fees		
Supplies		
Rent – facilities		
Other expenses		
Total selling, general, and administrative expenses		
Income from operations		
Other income (expense):		
Interest and financing costs, net		
Other expense		
Total other expense		
Net income	\$	

(10) Expectations Regarding Continuation / Cessation of Operations at the DCHS Facilities Post-closing / Expectations for New Operations

We expect to finalize our decisions regarding continuation of operation and capital allocation for the acquired assets after conducting further due diligence. However, our desire is to maintain continuity of existing services to the greatest extent possible. We plan to actively seek out potential areas to complement existing service lines with CHA Group and HPMC's competencies in order to achieve our post-acquisition objective of (i) providing high quality care to the community to satisfy both our employees and patients; as well as (ii) achieving a level of cost efficiency that allows for sustainable and financially secure hospital operations.