



March 21, 2014

STRICTLY PRIVATE AND CONFIDENTIAL

Houlihan Lokey Capital, Inc.
123 N. Wacker Dr., 4th Floor
Chicago, IL 60606

Attn: Messrs. Geoffrey Ligibel and Scott Jackson

Via E-Mail

PRELIMINARY PROPOSAL

Dear Sirs,

On behalf of CHA Hollywood Presbyterian Medical Center, LP (“**HPMC**”) (together with its affiliates, “**we**” or “**CHA Group**”) we thank Daughters of Charity Health System (“**DCHS**” or the “**System**”) for inviting us to participate in the process for a potential acquisition of DCHS as a whole or in part thereof (the “**Transaction**”).

We are pleased to submit our non-binding and preliminary indication of interest (the “**Preliminary Proposal**”) for the acquisition of the System’s businesses as outlined below. We regard this as an exciting opportunity for DCHS, under our ownership, to continue its important role as an essential healthcare provider to under-served communities throughout California and further grow as part of our international healthcare platform.

Description of HPMC

HPMC is the largest privately-owned, for-profit hospital in Los Angeles County with 434 licensed acute beds, and more than 16,000 inpatient admissions and 65,000 outpatient visits per annum. It is located on North Vermont Avenue at the heart of LA’s medical corridor and is in near proximity to Korea Town and Hollywood. As a large community hospital serving a significant population of uninsured and under-privileged patients over the past 90 years, HPMC provides essential healthcare services to over 40 ethnic groups in its service area and operates one of LA’s busiest emergency rooms with more than 34,300 visits per annum. HPMC also operates an intensive care unit, a telemetry unit, an acute rehabilitation unit, an 89-bed skilled nursing unit, 8 surgical operating rooms, and is affiliated with the Keck School of Medicine at University of Southern California and the Children’s Hospital Los Angeles. In addition, HPMC has specialized centers for maternal and fetal health, cardiac care and spine treatment, and provides one of the largest maternity services in Southern California with 4,000 deliveries per annum. HPMC currently has 615 physicians on staff and over 1,400 employees in a variety of medical specialties. In its latest fiscal year ending December 31, 2013, HPMC reported total assets of \$130 million, revenues of \$269 million and EBITDA of \$37 million.

As an important safety net hospital providing vital services to the broader LA community, HPMC is strongly dedicated to charity services and has provided \$278 million in charity care over the past 9 years since the acquisition by CHA Group. Founded as Hollywood’s first hospital in 1924 and turned into a Presbyterian hospital in 1937, HPMC has been deeply devoted to its Christian values and formally abides by the Ethical and

Religious Directives for Catholic Health Care Services as set forth by the United States Conference of Catholic Bishops.

HPMC is wholly owned by CHA Group, one of Asia's leading healthcare service providers comprised of the CHA group of hospitals, CHA Bio&Diotech Co., Ltd. and CHA Healthcare Co., Ltd., amongst others. CHA Group currently operates 12 hospitals and 20 medical research and education institutes throughout the Pacific Rim region, and is globally renowned for its leading expertise in OB/GYN, fertility treatment and cell technology research, amongst other areas. Additional information on CHA Group is set out in Annexure A.

Given our Group-wide strengths and resources, we believe that HPMC is uniquely positioned to complement and enhance DCHS' hospital services throughout California for the long-term. CHA Group has extensive experience in fixing troubled hospital operations, as evidenced by our dramatic turnaround of HPMC's operations after acquiring it from Tenet Healthcare Corporation in 2005. Likewise, we believe that CHA Group is singularly enabled to ensure that DCHS remains a viable provider of important health services to its communities.

Assets to be Acquired

We recognize your desire to minimize the number of transactions for disposition of all of the System's operations and our indicative Preliminary Proposal has been developed to address that objective. Our Preliminary Proposal envisages a Transaction in which we acquire up to 100% of DCHS' outstanding shares and existing hospital operations, subject to further due diligence and discussions with you. We remain flexible on the precise Transaction parameter and would be reasonably amenable to exploring the exclusion of certain components (including ancillary real estate) if so desired by the System.

Our primary intention is to retain any existing entities, including possibly the Medical Foundation, which would be required to sustainably support the acquired hospital operations. However, we will need further due diligence on tax, legal and regulatory matters in order to properly assess the practicable feasibility of assuming the Medical Foundation.

Amount and Form of Consideration

We have estimated a consideration for 100% of DCHS' outstanding operations in the range of \$125–205 million, based on a number of valuation approaches and assumptions about the transaction method, and which can be further refined through subsequent discussions with you. In formulating this indicative valuation, we have assumed the inclusion of all tangible assets including medical office buildings and other non-hospital ancillary properties, as well as the assumption of DCHS' outstanding debt obligations under the Series 2005 Bond. We have assumed no other obligations, including any contingent liabilities. Given the hospitals' weak current financial and operating performances and outstanding debt obligations, we have assumed that the aggregated tangible assets comprise a significant portion of DCHS' overall net positive value. That said, we remain amenable to carving out certain ancillary assets if practicable. We believe that this indicative offer represents a compelling proposition for the System.

We are also flexible with respect to the form of consideration and would like to discuss a variety of options with you. The aforementioned estimated value is on an enterprise value basis and we envisage a cash transaction for any net portion excluding the assumption of outstanding debt obligations, subject to potential carve outs of ancillary tangible assets. As an alternative to a full cash consideration, we would also like to discuss the possibility of a partial cash and securities transaction wherein the System's current stakeholders will be able to benefit from pro forma value creation.

The Preliminary Proposal is based on the System's current fully diluted share capital, financial position and operating performance based on the consolidated financial statements as of December 31, 2013 as disclosed in the Confidential Information Memorandum dated February 2014 and the Medical Office Supplemental Materials dated March 2014 (collectively, the "**Memorandum**"), and is subject to the following conditions, amongst others:

- satisfactory completion of customary due diligence;

- satisfactory arrangements with the System’s lenders concerning the debt and liabilities profiles of the System on a change of control;
- no material changes to the System’s businesses, operations, shareholder base, financial position, legal status, or capital structure;
- board and/or relevant internal approvals of HPMC;
- unanimous recommendation of the System’s board of directors, and formal consents from any relevant parties; and
- execution of a definitive agreement on acceptable and customary terms and conditions, including all necessary regulatory approvals from all relevant jurisdictions having been obtained.

Key Assumptions

Working Capital Assumption

Based on your view provided in the Memorandum that patient volumes will likely continue to decline, we believe that DCHS’ hospital operations will continue to face significant challenges in terms of working capital cash management, hence making it a key due diligence area. This notwithstanding, our intention is to retain as much working capital assets and liabilities as is required to support the acquired hospital operations.

CBA Agreements and Non-Union Employee Retention, Treatment of Other Agreements

Our priority is to ensure that DCHS can continue to effectively operate as a comprehensive service provider and we will strive to retain the System’s employees and maintain continuity of existing contracts and agreements to the fullest extent possible. We require, however, due diligence access on the details of all existing and pending collective bargaining agreements, further information on the employee composition, and other related terms of employment and benefits in order to form a more definitive view.

Post-Retirement Obligations

Our strong preference is to carve out the post-retirement obligations as they appear to be significantly underfunded and we remain unclear on the precise quantum of future contingent liabilities. That said, we remain amenable to discussing mutually beneficial alternatives regarding this matter.

Anticipated Operating Plan and Capital Commitments

Although we are still in the preliminary stages of our study, our general pro forma operating plan would focus on (i) maintaining continuity of existing DCHS hospital services to the greatest extent possible, (ii) actively seeking out potential areas to complement existing service lines with HPMC’s competencies, (iii) optimizing the combined pro forma entity’s in/out-patient volumes and payor mixes, (iv) generating cost synergies from greater economies of scale around outsourced and shared services, and (v) enhancing net supplemental funding through improved quality of care. We believe that we are also uniquely enabled to provide a turnaround solution for St. Vincent Medical Center given its proximity to HPMC and the mutual importance of the ethnic Korean population to both operations.

We have also formed the view that the existing hospital operations will require additional capital in the very near term in order to address the System’s sustained operating losses, working capital requirements and capital expenditure outlays as highlighted in the Memorandum. Accordingly, we are contemplating additional capital commitments following the Transaction in order to meet these immediate financial challenges and continue to operate as viable going concerns. We plan to assess the magnitude and timing of any requisite capital commitment through the due diligence process.

Community Service and Charity Care

HPMC has over 90 years of history servicing its region as a safety net hospital with deep commitment to its surrounding communities. Serving the community with Christian values and compassion is at the cornerstone of CHA Group’s work, and HPMC has provided \$278 million in charity care since CHA Group acquired it 9 years ago. In the same spirit, we fully intend to continue DCHS’ community services and charity care for the hospital operations we assume.

Sources of Capital

CHA Group has significant financial resources and intends to fund the Transaction using resources already held by, or immediately available to, us. As of the date of this letter, CHA Group has cash & equivalents of approximately \$307 million.

At this time, we are not contemplating the involvement of any parties other than our direct affiliates in the Transaction. This may evolve, as we may choose to contemplate other strategic or financing alternatives, and we will promptly notify and discuss with you if any such change arises.

Due Diligence

In order to progress our Preliminary Proposal into a binding offer, we require reasonable access to the System's management and information on a strictly confidential basis in order to conduct a short and highly focused due diligence exercise.

We appreciate that the System will likely wish to minimize any disruptions associated with a due diligence process. With our industry experience and a transaction team that stands ready to commence work immediately, we can commit to an expedient completion of our due diligence activities in a short period.

We would be able to confirm the anticipated process and timing once we have been invited to the next round and further clarity has been provided by the System with regards to the information to be made available through the due diligence process. We would also be in a position to better provide our due diligence request list once we have been invited to the next round, but expect our requirements to be focused and customary for transactions of this nature.

Process and Timing

We are in a position to move expediently and have dedicated significant senior resources to support the Preliminary Proposal. We are currently working with Blackstone Advisory Partners as our financial advisor for this opportunity and can expediently mobilize legal, accounting, tax, and other relevant advisors as appropriate.

We are committed to working together with the System in a positive and constructive manner to progress the Preliminary Proposal with a view to signing a definitive agreement and announcing an agreed Transaction as soon as possible. We anticipate that our transaction timeline will be defined only by the due diligence period and a requisite closing period to finalize any relevant approvals, for which we do not foresee any material impediments.

Contingencies to Closure and Nature of this Letter

We have obtained all necessary internal approvals to submit this letter to you.

A closing of the Transaction would be subject to customary regulatory approvals, and we will endeavor to expedite internal reviews and approvals. Based on our intention to fund the Transaction using financial resources already held by, or immediately available to, us, we do not expect additional time required for external financing.

This letter concerns an indicative, conditional, incomplete and non-binding preliminary proposal. The contents and existence of this letter, and any discussions about its subject matter held between us and the System, or between or involving their respective representatives, are strictly confidential.

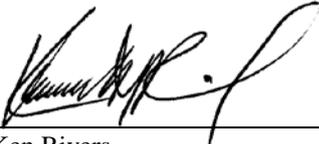
Contact Information

The principal contact persons in relation to this letter, together with their contact details are:

<p>Ken Rivers President and CEO CHA Hollywood Presbyterian Medical Center, LP</p> <p>REDACTED REDACTED REDACTED</p>	<p>Kyeong Wook Yoon CEO CHA Healthcare Co., Ltd</p> <p>REDACTED REDACTED REDACTED</p>
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We look forward to your response. Thank you.

Sincerely yours,



Ken Rivers
President and CEO
CHA Hollywood Presbyterian Medical Center, LP

Annexure A – Information on CHA Group

CHA Group (the “Group”)

CHA Group is a leading healthcare provider group founded in 1960 and headquartered in Korea. The Group’s operating scope encompasses the fields of medical research, biotechnology, hospital operations and higher education and it currently owns and operates 12 general hospitals, 4 educational institutes including the renowned CHA Medical University in Korea, and 16 medical research institutes with a primary focus on cell & gene therapy and women’s health, amongst others. CHA Group’s businesses are operated through two major entities, Sung Kwang Medical Foundation (a not-for-profit entity responsible for the Group’s Korean hospitals and medical school operations) and CHA Bio&Diostech Co., Ltd., a for-profit, listed entity primarily focused on cell research and optical technology. CHA Group today continues to build upon its capabilities as a leading comprehensive healthcare provider and lead global innovations through its cell technologies and comprehensive R&D capabilities.

CHA Group is led by Chairman Kwang Yul Cha, M.D., an internationally known fertility specialist. Dr. Cha received his medical degree from Yonsei University in Korea with a postdoctoral fellowship in endocrinology and infertility at the University of Southern California, and also taught as a visiting professor at Columbia University. Having pioneered the world’s first successful pregnancy & birth through in vitro maturation of human immature oocytes and the world’s first successful birth with frozen oocytes using EM grids, Dr. Cha has authored numerous books, medical reviews and over 200 articles and papers published in medical journals, and has been a recipient of more than 10 Prize Paper Awards conferred by the American Society for Reproductive Medicine, the International Federation of Fertility & Sterility and the European Society of Human Reproductive Endocrinology for his authorship.

CHA Bio&Diostech Co., Ltd (“CHA Bio”)

Founded in 2009, CHA Bio is Korea’s leading healthcare supplies and biomedicine developer and is an industry leader in systematic cell research and development. CHA Bio operates within an integrated business structure that merges hospital, university, institute and medical research, covering a wide range of advanced biomedicine development. CHA Bio is the majority and controlling shareholder of CHA Health Systems, Inc., the parent company of HPMC, and also operates CHA Fertility Center in Los Angeles.

CHA Bio also operates the Chaum brand, jointly founded and operated with CHA hospitals, which offers highly personalized and comprehensive health and well-being services for the prevention, treatment and management of diseases to patients across Asia. In addition, CHA Bio operates Korea’s leading cell research facility. Today, CHA Bio has a broad pipeline of cell therapy products under in-house development covering major treatment areas including oncology, CNS, arthritis, sports and brain injuries, and most of which are in Phase I/II stages of clinical development. CHA Bio also has a significant optical modules manufacturing business with a product portfolio including mobile and security lens, actuators and Bluetooth products.

For its fiscal year 2013, CHA Bio reported revenues of \$491 million, EBITDA of \$67 million and cash & equivalents of \$119 million. Cha Bio is listed on the Korea Stock Exchange and had a market capitalization of \$819 million as of March 20, 2014.

CHA Healthcare Co., Ltd (“CHC”)

Founded in 2013, CHC is focused on building a comprehensive healthcare platform across the pan-Pacific Rim region, with an emphasis on prevention, acute and post-care services. CHC is engaged a number of hospital-related opportunities throughout the Asia-Pacific region, including joint ventures and partnerships. CHC is 57.7% owned by Cha Bio, with the rest owned by prominent Asian institutional investors.