

May 21, 2014

Via Email

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

Re: **Daughters of Charity Health System**

Gentlemen:

On behalf of CHA Healthcare Co. Ltd. (“CHC”) and CHA Hollywood Presbyterian Medical Center, LP (“HPMC”) (together CHC, “we” or “CHA”), we thank Daughters of Charity Health System (“DCHS” or the “System”) for inviting us to make a proposal for a transaction involving DCHS. Since our preliminary proposal dated March 21, 2014, we have been performing our due diligence with respect to DCHS, and it has confirmed our strong interest in acquiring all or substantially all of DCHS’s hospital and hospital-related assets and operations.

The purpose of this letter is to respond to your May 1, 2014 request (your “RFP”), and to set forth our proposal outlining the general parameters around which we would consider a transaction involving DCHS. While our proposal is to acquire all of DCHS’s hospital and hospital-related assets and operations, we are also willing to remain flexible—subject to your analysis of the bidding field—as to possibly acquiring discrete LHM’s and related assets should you conclude that this alternative might provide enhanced value to DCHS.

General Parameters

We propose to acquire all of DCHS’s hospital and hospital-related assets for a purchase price derived from an enterprise value of \$350,000,000. This proposal is based upon information present in the data room as of Monday, May 19th. The transferred assets would include all assets relating to DCHS’s hospital and hospital-related assets and operations (including cash and securities) with only certain specified exclusions (which would include the so-called “QA payments” accrued off balance sheet). Our proposal contemplates that we would assume only specified liabilities, including current operating liabilities commonly reflected in net working capital. We would not assume any indebtedness. We would assume the pension liabilities described below, subject to further diligence. We would expect DCHS to deliver normalized and agreed-upon net working capital as part of the transaction.

Purchase Price

The purchase price would be payable in cash at the closing. It would be equal to \$350,000,000 less the amount of the assumed pension liabilities, which include: (1) the dollar amount of the underfunding of the Daughters of Charity Health System Retirement Plan, as calculated by CHA's actuaries based on assumptions appropriate for an ERISA covered plan; (2) the dollar amount of the unfunded liability attributable to the Daughters of Charity Health System with respect to the Retirement Plan for Hospital Employees, as calculated by CHA's actuaries based on assumptions deemed reasonable by such actuaries; and (3) the dollar amount of the unfunded liability attributable to the Daughters of Charity Health System with respect to the Stationary Engineers Local 39 Pension Fund, as calculated by CHA's actuaries based on assumptions deemed reasonable by such actuaries. Based solely upon financial information previously provided to us by DCHS, we currently estimate the amount of the assumed pension liabilities to be approximately \$266,000,000 – however, we intend to continue our due diligence in this regard to better validate the current estimate. As mentioned above, DCHS would retain the right to receive the QA payments.

Collective Bargaining Agreements

We propose to assume the disclosed collective bargaining agreements. The provisions in those agreements that require providing advance notice to the unions of the transaction are acceptable, subject to our meeting with the unions pre-signing and discussing possible changes. The language in those agreements requiring the purchaser to assume the collective bargaining agreements—including inserting this obligation in transaction documents—is also acceptable, subject to the same caveat. Minor changes will need to be made to the collective bargaining agreements to provide for the substitution of the existing defined contribution plans, as described below.

Pension Matters

With respect to the Retirement Plan for Hospital Employees, we propose that, subject to further diligence, the transaction be structured to satisfy the requirements of Section 4204 of ERISA, whereby we would continue to contribute to that plan and would assume the contribution history of the seller for the purposes of any future withdrawal. This structure would avoid the transaction itself being considered a withdrawal from that plan. We have not received sufficient information regarding the Stationary Engineers Local 39 Pension Fund to determine the liabilities under that plan and therefore, we will reserve the right as to the approach to be taken with regard to that plan.

With respect to the Daughters of Charity Health System Retirement Plan, subject to further diligence, we propose to assume the plan and convert it from a church plan to one covered under the ordinary requirements of ERISA and the Internal Revenue Code.

Because CHA cannot sponsor an Internal Revenue Code Section 403(b) plan or a church plan, we propose that DCHS terminate prior to the closing the Daughters of Charity Health System Supplemental Retirement Plan, the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan and the DCHS

401(a)(17) Retirement Plan Account. Immediately after the closing, CHA expects to establish a defined contribution plan or plans providing similar benefits to the benefits provided under the three broad based defined contribution plans described above, subject to the non-discrimination requirements of ERISA and the Internal Revenue Code. CHA also will consider establishing a nonqualified deferred compensation plan for a select group of management or highly compensated employees.

Due Diligence

Our proposal is subject to completion of our due diligence. As mentioned above, we have been conducting diligence with respect to this transaction since our preliminary proposal. We have engaged Blackstone Advisory Partners, Deloitte & Touche LLP and Proskauer Rose LLP to assist us in this endeavor. We would expect to continue confirmatory due diligence with respect to financial, accounting and legal matters with specific emphasis on environmental, seismic, labor, pension, real estate and accounting matters. To that end, we appreciate DCHS's cooperation in our due diligence and would appreciate its continued cooperation. This would include providing us with requested items that have not been provided – and we are currently putting together a list of these items and expect to send them to you very shortly. We expect that our confirmatory due diligence would take approximately 30 days assuming your prompt cooperation on behalf of DCHS.

Purchase Agreement

Our proposal is subject to the negotiation and execution of satisfactory definitive documentation. We have asked our advisors to mark up the form of Purchase Agreement that was provided in the data room, and this process is well underway. We expect to provide you with a mark-up very shortly.

Contingencies

Our proposal is subject to usual and customary contingencies which would be more fully described in the applicable purchase agreement. These would include the absence of material adverse changes or litigation challenging the transaction; receipt of all necessary third party consents and governmental approvals, including receipt of the California Attorney General's approval; expiration of the Hart-Scott Rodino waiting period; completion of our due diligence; approval of the board of directors of CHA; execution of definitive documentation; such other contingencies as may arise out of our due diligence. These would not include a financing contingency, as the purchase price would be funded entirely from available cash on hand at CHA.

Miscellaneous

This letter and the proposal contained in this letter are not binding and are not intended to constitute a binding offer or agreement or give rise to any obligation on the part of CHA or any of their respective affiliates. No binding obligation (contractual or otherwise) shall exist unless and until CHA and DCHS shall have executed and delivered definitive agreements with respect to the transaction, and then only to the extent expressly provided in definitive agreements. We reserve the right to terminate discussions with respect to the transaction contemplated by this

letter at any time for whatever reason (or no reason). This letter and the proposal contained in this letter shall be governed by the laws of the State of New York, without regard to its laws regarding conflicts of laws.

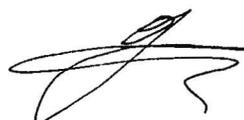
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We remain committed to work with DCHS in a positive and constructive manner to move towards a successful conclusion to the proposed transaction as expeditiously as possible. This proposal has the support of CHC's board of directors, and we have deployed (and are prepared to continue to deploy) significant internal and external resources to that end.

We look forward to hearing from you soon. Should you have any questions regarding this non-binding proposal, please feel free to contact Christopher Chung at +852 3651 7632 or christopher.chung@blackstone.com.

Very truly yours,

CHA Healthcare Co., Ltd.

By: 

Kyeong-Wook Yoon
President and CEO

CHA Hollywood Presbyterian Medical Center, LP

By: 

Kenneth I. Rivers
President and CEO