

# **Doctors Hospital Health System Limited**

*Interim Report*

*Quarter ended October 31, 2006*



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## **Chairman's Report Doctors Hospital Health System Limited**

Dear Shareholders,

I am pleased to report on your company's financial results for the nine months ended October 31, 2006. Earnings per share were twenty-four cents for the period. Net income was \$2.4 million compared to \$3.6 million for the comparable period in 2005.

Total revenues grew to \$28.9 million for the nine months ended October 31, 2006, compared to \$28.5 million for the prior year period. For the three months ended October 31, 2006 the Company realized moderate revenue performance for August due to the traditional seasonal decline in patient activities. However, patient activities exhibited a strong upswing in the last two months of the quarter.

Patient days, total admissions, surgical procedures, newborn deliveries, and emergency room visits all continue to trend ahead of last year's results. Similarly, outpatient business in our imaging and laboratory departments remains steady as continued investments in medical technology continue to produce tangible benefits. Overall, patient volumes continue to be strong as the hospital maintains its pace to match the unprecedented occupancy levels achieved in the previous fiscal year.

Total expenses increased \$2.1 million, or 8.6%, over the same period last year. While the costs of doing business continue to rise, the theme remains the same – a strong focus on cost management.

The cash position improved significantly as days revenue in accounts receivable dropped to 77 days from a high of 95 days just three months ago. At \$6.995 million, net accounts receivable continue to move in the right direction. As local healthcare providers face a myriad of challenges—from the growing levels of underinsured and uninsured patients, intense global competition for skilled staff to escalating operating costs—the Board has given its full support to Management's initiatives to intensify collection efforts by aggressively pursuing industry best practices within patient financial services. This has necessitated a more robust dialogue with third party payers, including foreshadowed adjustments to their eligibility requirements for prompt pay discounts. While stringent, these steps are necessary to ensure that our hospital remains on a firm financial foundation, and therefore capable of providing the quality of care patients and physicians expect.

Last quarter we reported that the company had entered into a sales agreement to sell the investment property located on Blake Road. Finalization of the process continues to move ahead as the purchasers move the transaction through a series of government approvals.

The outlook for the remainder of the fiscal year remains strong. On behalf of the Board of Directors, I thank you for your continued support and loyalty to Doctors Hospital.

Joseph Krukowski  
Chairman  
November 15, 2006

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Balance Sheet

October 31, 2006 with comparative figures at January 31, 2006  
(Expressed in thousands of Bahamian dollars)

|  | October 31, 2006 | January 31, 2006 |
|--|------------------|------------------|
| <b>Assets</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$ 1,070         | 1,257            |
| Accounts receivable—patients, net (note 2)   | 1,415            | 1,069            |
| Accounts receivable—third party payors, net (note 2)   | 5,580            | 6,566            |
| Inventories  | 1,076            | 1,150            |
| Other assets   | 430              | 509              |
| Assets classified as held for sale (note 3)  | 5,558            | 5,597            |
|  | <b>15,129</b>    | <b>16,148</b>    |
| Non-current assets:  |                  |                  |
| Goodwill   | 431              | 431              |
| Investments  | 30               | 30               |
| Investment property  | 1,022            | 1,022            |
| Property, plant and equipment  | 12,204           | 10,992           |
|  | <b>13,687</b>    | <b>12,475</b>    |
| <b>Total assets</b>  | <b>\$ 28,816</b> | <b>28,623</b>    |
| <b>Liabilities and Shareholders' Equity</b>  |                  |                  |
| Current liabilities:   |                  |                  |
| Accounts payable and other liabilities   | \$ 2,356         | 3,071            |
| Long-term debt, current portion  | 390              | 1,653            |
| Liabilities directly associated with assets classified as held for sale (note 3)                         | 5,419            | 5,933            |
|  | <b>8,165</b>     | <b>10,657</b>    |
| Non-current liabilities  |                  |                  |
| Long-term debt   | 3,399            | 3,117            |
| <b>Total liabilities</b>   | <b>11,564</b>    | <b>13,774</b>    |
| Shareholders' equity:  |                  |                  |
| Share capital:   |                  |                  |
| Authorized 12,500,000 common shares at par value of B\$0.04 each (January 31, 2006 – 12,500, 000 shares) |                  |                  |
| Issued and fully paid 9,971,634 shares (January 31, 2006 – 9,971,634 shares)                             | 399              | 399              |
| Contributed surplus  | 12,358           | 12,358           |
| Retained earnings  | 4,495            | 2,092            |
|  | <b>17,252</b>    | <b>14,849</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 28,816</b> | <b>28,623</b>    |

(Unaudited)

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Statement of Revenue and Expenses

Three months ended October 31, 2006 with comparative figures for the three months ended October 31, 2005

(Expressed in thousands of Bahamian dollars)

|  | <b>October 31, 2006</b> | October 31, 2005 |
|--|-------------------------|------------------|
| <b>CONTINUING OPERATIONS</b>                               |                         |                  |
| <b>Revenues</b>  |                         |                  |
| Patient service revenue, net                               | \$ 10,933               | 11,148           |
| Other  | 130                     | 89               |
| <b>Total revenues (note 4)</b>                             | <b>11,063</b>           | 11,237           |
| <b>Expenses</b>  |                         |                  |
| Salaries and benefits                                      | 3,488                   | 3,487            |
| Medical supplies and services                              | 4,347                   | 4,050            |
| Other operating  | 1,016                   | 817              |
| Provision for doubtful accounts                            | 380                     | 539              |
| Depreciation and amortization                              | 573                     | 444              |
| Utilities  | 335                     | 325              |
| Government taxes and fees                                  | 158                     | 182              |
| Repairs and maintenance                                    | 78                      | 132              |
| <b>Total expenses</b>                                      | <b>10,375</b>           | 9,976            |
| Income from continuing operations before interest          | 688                     | 1,261            |
| Interest expense   | (85)                    | (73)             |
| <b>Income from continuing operations</b>                   | <b>603</b>              | 1,188            |
| <b>Discontinued operations</b>                             |                         |                  |
| Revenue  | 20                      | 12               |
| Expenses   | (194)                   | (243)            |
| <b>Loss from discontinued operations</b>                   | <b>(174)</b>            | (231)            |
| <b>Net income for the period</b>                           | <b>\$ 429</b>           | 957              |
| Earnings per common share (expressed in Bahamian dollars): |                         |                  |
| Basic and fully diluted                                    | \$ 0.04                 | 0.10             |

(Unaudited)

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Statement of Income

Nine months ended October 31, 2006 with comparative figures for the nine months ended October 31, 2005

(Expressed in thousands of Bahamian dollars)

|  | <b>October 31, 2006</b> | October 31, 2005 |
|--|-------------------------|------------------|
| <b>CONTINUING OPERATIONS</b>                               |                         |                  |
| <b>Revenues</b>  |                         |                  |
| Patient service revenue, net                               | \$ 28,580               | 28,221           |
| Other  | 388                     | 238              |
| <b>Total revenues (note 4)</b>                             | <b>28,968</b>           | <b>28,459</b>    |
| <b>Expenses</b>  |                         |                  |
| Salaries and benefits                                      | 10,548                  | 10,204           |
| Medical supplies and services                              | 7,162                   | 6,816            |
| Other operating  | 2,910                   | 2,380            |
| Provision for doubtful accounts                            | 1,667                   | 1,441            |
| Depreciation and amortization                              | 1,633                   | 1,306            |
| Utilities  | 865                     | 786              |
| Government taxes and fees                                  | 583                     | 535              |
| Repairs and maintenance                                    | 402                     | 251              |
| <b>Total expenses</b>                                      | <b>25,770</b>           | <b>23,719</b>    |
| Income from continuing operations before interest          | 3,198                   | 4,740            |
| Interest expense   | (266)                   | (301)            |
| <b>Income from continuing operations</b>                   | <b>2,932</b>            | <b>4,439</b>     |
| <b>Discontinued operations</b>                             |                         |                  |
| Revenue  | 65                      | 41               |
| Expenses   | (594)                   | (672)            |
| Impairment of property, plant & equipment                  | -                       | (238)            |
| <b>Loss from discontinued operations</b>                   | <b>(529)</b>            | <b>(869)</b>     |
| <b>Net income for the period</b>                           | <b>\$ 2,403</b>         | <b>3,570</b>     |
| Earnings per common share (expressed in Bahamian dollars): |                         |                  |
| Basic and fully diluted                                    | \$ 0.24                 | 0.36             |

(Unaudited)

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Statement of Cash Flows

Nine months ended October 31, 2006 with comparative figures for the nine months ended October 31, 2005

(Expressed in thousands of Bahamian dollars)

|   | October 31, 2006 | October 31, 2005 |
|---|------------------|------------------|
| Cash and cash equivalents provided by (used in):                                  |                  |                  |
| <b>OPERATING ACTIVITIES:</b>  |                  |                  |
| Net income  | \$ 2,403         | 3,570            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |
| Depreciation and amortization   | 1,633            | 1,306            |
| Provision for doubtful accounts   | 1,667            | 1,441            |
| Impairment of property, plant & equipment   | -                | 238              |
|   | <b>5,703</b>     | <b>6,555</b>     |
| Increase in accounts receivable   | (987)            | (3,690)          |
| Decrease (increase) in inventories  | 74               | (40)             |
| (Increase) decrease in other assets   | 59               | (41)             |
| (Decrease) increase in accounts payable and other liabilities                     | (710)            | 44               |
| Cash and cash equivalents provided by operating activities                        | <b>4,139</b>     | <b>2,828</b>     |
| <b>INVESTING ACTIVITIES:</b>  |                  |                  |
| Purchase of property, plant and equipment   | <b>(2,846)</b>   | <b>(3,000)</b>   |
| <b>FINANCING ACTIVITIES:</b>  |                  |                  |
| Repayment of long-term debt   | <b>(1,501)</b>   | <b>(1,523)</b>   |
| Decrease in cash and cash equivalents   | <b>(208)</b>     | <b>(1,695)</b>   |
| Cash and cash equivalents at beginning of period                                  | <b>1,284</b>     | <b>3,199</b>     |
| Cash and cash equivalents at end of period (note 5)                               | <b>\$ 1,076</b>  | <b>1,504</b>     |

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less.

(Unaudited)

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Statement of Changes in Equity

Nine months ended October 31, 2006

(Expressed in thousands of Bahamian dollars)

|                             | Number of shares | Share capital | Contributed surplus | Retained earnings |
|-----------------------------|------------------|---------------|---------------------|-------------------|
| Balance at January 31, 2006 | 9,971,634        | \$ 399        | \$ 12,358           | \$ 2,092          |
| Net income for the period   | -                | -             | -                   | 2,403             |
| Balance at October 31, 2006 | 9,971,634        | \$ 399        | \$ 12,358           | \$ 4,495          |

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## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

Notes to Interim Consolidated Financial Statements

Nine months ended October 31, 2006

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### 1. Significant accounting policies

These interim financial statements have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting, using the same accounting policies applied in the January 31, 2006 audited consolidated financial statements.

### 2. Accounts receivable

Accounts receivable are stated net of provisions for doubtful accounts of \$6.8 million. Outstanding balances for National Insurance Board and Bahamas Public Services Union at October 31, 2006 were \$0.7 million and \$0.8 million, respectively.

### 3. Assets classified as held for sale

For the period ended October 31, 2006, total assets and liabilities of companies which have been discontinued and for which there is a commitment for disposition are reported in the balance sheet as "held for sale." Operating results for these segments are reported in the statement of income "Discontinued operations." These include Western Medical Plaza and Imaging Equipment Limited.

### 4. Net patient service revenue/medical supplies and services

For the year ended January 31, 2006 the company changed its method of accounting for physician fees earned in the Emergency Room (ER) and Imaging Department. Previously, the Company recorded the net amount earned under its contract with the party providing such services. Physician services in these two departments are provided by separate corporate entities in which DHHS has not ownership interests. Following the year-end accounting change, the company commenced a comprehensive review to re-evaluate the customer service impact of the accounting change, and to determine whether to maintain the new policy. Following that review, the Company opted to maintain the policy adopted at January 31, 2006. Consequently, the full amount of ER and Imaging physician fees earned have been recorded in patient service revenues in the consolidated statement of operations and the corresponding payments to the contracted companies have been recorded as expenses in medical services and supplies. This change in accounting was applied retrospectively for the preceding periods of this fiscal year. There was no impact on net income in the current or prior periods.

### 5. Bank indebtedness (cash and cash equivalents)

The cash position of \$1.076 million reported in the statement of cash flows reflects \$6,000 in cash for WMP that is recorded as assets held for sale.