

**Doctors Hospital Health System Limited**

*Interim report*

*Quarter ended July 31, 2005*

## **Chairman's Report**

### **Doctors Hospital Health System Limited**

Dear Shareholders,

I am pleased to report on your company's financial results for the six months ended July 31, 2005. Earnings per share—on a net basis—increased to twenty-six cents for the first six months of the current fiscal year from nine cents in the comparable period last year. EPS from continuing operations were thirty-three cents for the period compared to eighteen cents last year. For the six months ended July 31, 2005, the Company realized net income of \$2.6 million compared to just under \$1.0 million for the comparable period in 2004.

The financial results reflect a strong improvement in total revenues from \$14.1 million last year to \$17.1 million in the current period. The growth in patient revenues continues to reflect an upward trend in key statistics, including, patient days, surgical procedures, Emergency Room, and outpatient diagnostic procedures.

As in the previous quarter, the level of inpatient activity, particularly in intensive care units, has been notably higher relative to the prior year. Of particular importance has been the marked increase in acuity levels for a significant number of patients admitted to hospital during this period. This experience drove up demand for services in other units, such as laboratory, pharmacy and rehabilitation services.

Despite increasing cost pressures, operating expenses—relative to patient service revenues—continued to be carefully contained. Salaries and benefits, at 39% of total revenues, remain in line with best practice for the U.S. healthcare industry.

The Western Medical Plaza is the principal discontinuing operation. Efforts to sell the assets continue. Interest in WMP remains high. However, no formal agreement for sale has been consummated. A number of viable proposals have been presented by local and foreign investors and at present, the principals of the proposed ventures are moving their proposals through the appropriate processes.

In the absence of a firm agreement to date, the Company recorded an impairment charge of \$237,611 for the current period. This charge related primarily to medical and industrial kitchen equipment without a ready local market. The Company will perform continuing assessments of assets classified as "discontinuing operations" to assess whether any additional impairment has occurred. At present, the Company anticipates no circumstances that would necessitate any significant additional impairment charge through year-end.

Total assets increased \$1.7 million, or 6.4%, principally reflecting an increase in net accounts receivable (AR) and property, plant and equipment (PP&E). While Days Revenue in AR increased nine (9) days to eighty-one (81), up from seventy-two (72) days as of January 31, 2005, the increase in the AR position largely reflected the strong growth in revenues. It also reflected the seasonal spike in AR anticipated during the summer months. On the positive side, the average collection period for AR was reduced since year-end 2005. We are pleased to report that increases in PP&E reflect new investments in medical equipment for designated centers of excellence and ongoing additions of modules related to the fully integrated healthcare information system, MEDITECH, which is scheduled for go-live February 1, 2006.

Joseph Krukowski  
Chairman  
August 25, 2005

# DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

## Consolidated Balance Sheet

July 31, 2005 with comparative figures at January 31, 2005

(Expressed in thousands of Bahamian dollars)

	July 31, 2005	January 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,115	3,199
Accounts receivable—patients, net	7,324	939
Accounts receivable—third party payors, net	-	4,628
Inventories	1,116	1,034
Other assets	609	580
	<u>11,164</u>	<u>10,380</u>
Non-current assets:		
Goodwill	431	431
Investment	30	30
Property, plant and equipment	16,369	15,474
	<u>16,830</u>	<u>15,935</u>
<b>Total assets</b>	<b>\$ 27,994</b>	<b>26,315</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and other liabilities	\$ 2,279	2,262
Long-term debt, current portion	2,332	1,952
	<u>4,611</u>	<u>4,214</u>
Non-current liabilities		
Long-term debt	10,034	11,364
<b>Total liabilities</b>	<b>14,645</b>	<b>15,578</b>
Shareholders' equity:		
Share capital:		
Authorized 12,500,000 common shares at par value of B\$0.04 each (January 31, 2005 – 12,500,000 shares)		
Issued and fully paid 9,971,634 shares (January 31, 2005 – 9,971,634 shares)		
	399	399
Contributed surplus	12,358	12,358
Retained earnings (deficit)	593	(2,020)
	<u>13,350</u>	<u>10,737</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 27,995</b>	<b>26,315</b>

(Unaudited)

# DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

## Consolidated Statement of Revenue and Expenses

Three months ended July 31, 2005 with comparative figures for the three months ended July 31, 2004  
(Expressed in thousands of Bahamian dollars)

	July 31, 2004	July 31, 2004
<b>CONTINUING OPERATIONS</b>		
Patient service revenue, net	\$ 7,995	7,246
Other	63	337
<b>Total revenues</b>	<b>8,058</b>	<b>7,583</b>
<b>Expenses</b>		
Operating	6,110	5,354
Depreciation	439	416
Provision for doubtful accounts	467	533
<b>Total expenses</b>	<b>7,016</b>	<b>6,303</b>
Income from continuing operations before interest	1,042	1,280
Interest expense	(109)	(137)
Income from continuing operations	933	1,143
<b>Discontinuing operations</b>		
Revenue	14	6
Expenses	(226)	(432)
Impairment of property, plant & equipment	(238)	-
Loss from discontinuing operations	(450)	(426)
<b>Net income for the period</b>	<b>\$ 483</b>	<b>717</b>
Earnings per common share (Expressed in Bahamian dollars):		
From continuing operations	\$ 0.10	0.11
Basic	0.05	0.07

(Unaudited)

# DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

## Consolidated Statement of Income

Six months ended July 31, 2005 with comparative figures for the six months ended July 31, 2004  
(Expressed in thousands of Bahamian dollars)

	July 31, 2005	July 31, 2004
<b>CONTINUING OPERATIONS</b>		
Patient service revenue, net	\$ 16,895	13,700
Other	164	371
<b>Total revenues</b>	<b>17,059</b>	<b>14,071</b>
<b>Expenses</b>		
Operating	11,979	10,484
Depreciation	862	784
Provision for doubtful accounts	739	745
<b>Total expenses</b>	<b>13,580</b>	<b>12,012</b>
Income from continuing operations before interest	3,479	2,058
Interest expense	(228)	(274)
Income from continuing operations	3,251	1,784
<b>Discontinuing operations</b>		
Revenue	29	84
Expenses	(429)	(960)
Impairment of property, plant & equipment	(238)	-
Loss from discontinuing operations	(638)	(876)
<b>Net income for the period</b>	<b>\$ 2,613</b>	<b>908</b>
Earnings per common share (expressed in Bahamian dollars):		
From continuing operations	\$0.33	0.18
Basic	0.26	0.09

(Unaudited)

# DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

## Consolidated Statement of Cash Flows

Six months ended July 31, 2005

(Expressed in thousands of Bahamian dollars)

	July 31, 2005	July 31, 2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,613	908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	862	1,108
Provision for doubtful accounts	713	788
Impairment of property, plant & equipment	238	-
Amortization of goodwill	-	54
	4,425	2,858
Increase in accounts receivable	(2,373)	(217)
Decrease in inventories	82	36
(Increase) Decrease in prepaid expenses & other assets	(126)	157
Increase in accounts payable and other liabilities	16	239
<b>Cash and cash equivalents provided by operating activities</b>	<b>1,861</b>	<b>3,073</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(1,995)	(1,047)
Proceeds from disposal of assets	-	21
Decrease in advances to associates	-	3
<b>Cash and cash equivalents used in operating activities</b>	<b>(1,995)</b>	<b>(1,026)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	(949)	(693)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,084)</b>	<b>1,355</b>
Cash and cash equivalents, beginning of period	3,199	425
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,115</b>	<b>1,780</b>

Cash and cash equivalents are comprised of cash and bank overdrafts.

(Unaudited)

## DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

### Consolidated Statement of Changes in Equity

Six months ended July 31, 2004

(Expressed in thousands of Bahamian dollars)

	Number of shares	Share capital	Contributed surplus	Retained earnings
Balance at January 31, 2004	9,971,634	\$ 399	\$ 12,358	\$ (4,587)
Net income for the period	-	-	-	908
Balance at July 31, 2004	9,971,634	\$ 399	\$ 12,358	\$ (3,679)

Six months ended July 31, 2005

(Expressed in thousands of Bahamian dollars)

	Number of shares	Share capital	Contributed surplus	Retained earnings
Balance at January 31, 2005	9,971,634	\$ 399	\$ 12,358	\$ (2,020)
Net income for the period	-	-	-	2,613
Balance at July 31, 2005	9,971,634	\$ 399	\$ 12,358	\$ 593

See accompanying notes to unaudited interim consolidated financial statements.

**(Unaudited)**