



DOCTORS HOSPITAL HEALTH SYSTEM LIMITED

Audited Consolidated Financial Statements
Year ended January 31, 2009
with Independent Auditors' Report

Doctors Hospital Health System Limited
Audited Consolidated Financial Statements

Year ended January 31, 2009

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**Independent Auditors' Report to the Board of Directors and Shareholders of
Doctors Hospital Health System Limited**

We have audited the accompanying financial statements of Doctors Hospital Health System Limited and its subsidiaries (the Company), which comprise the consolidated balance sheet as at January 31, 2009 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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, these consolidated financial statements present fairly, in all material respects, the financial position of Doctors Hospital Health System Limited as of January 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 6, 2009

Doctors Hospital Health System Limited

Consolidated Balance Sheet

January 31, 2009

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 5,327,632	\$ 6,629,973
Accounts receivable-patients, net (note 5)	1,003,039	1,269,958
Accounts receivable-third-party payors, net (note 5)	5,825,996	4,787,290
Inventories (note 6)	1,153,428	1,165,884
Other assets (note 7)	573,932	728,854
Total current assets	<u>13,884,027</u>	<u>14,581,959</u>
Non-current assets		
Investment	30,000	30,000
Goodwill, net (note 8)	430,902	430,902
Other intangible assets (note 9)	2,013,831	2,423,156
Investment property (note 10)	4,703,294	4,868,429
Property, plant and equipment (note 11)	10,738,716	8,920,464
Total non-current assets	<u>17,916,743</u>	<u>16,672,951</u>
Total assets	<u>\$ 31,800,770</u>	<u>\$ 31,254,910</u>

Doctors Hospital Health Systems Limited

Consolidated Balance Sheet (Continued)

	<u>2009</u>	<u>2008</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other liabilities (note 12)	\$ 3,515,664	\$ 3,442,447
Long-term debt, current portion (note 13)	942,120	942,120
Total current liabilities	<u>4,457,784</u>	<u>4,384,567</u>
Non-current liabilities		
Long-term debt (note 13)	4,123,414	7,065,534
Total liabilities	<u>8,581,198</u>	<u>11,450,101</u>
Shareholders' equity		
Share capital		
Authorized		
12,500,000 Common shares at par value		
of \$0.04 (2008: 12,500,000)		
Issued and fully paid		
9,971,634 (2008: 9,971,634)	398,865	398,865
Contributed surplus	12,358,030	12,358,030
Retained earnings	10,462,677	7,047,914
Total shareholders' equity	<u>23,219,572</u>	<u>19,804,809</u>
Total liabilities and shareholders' equity	<u>\$ 31,800,770</u>	<u>\$ 31,254,910</u>

Commitments and Contingencies (notes 20 and 21)

Approved By The Board:

Joe W. P. Krukowski Director Felix Stubbs Director

See accompanying notes.

Doctors Hospital Health System Limited

Consolidated Income Statement

Year ended January 31, 2009

	<u>2009</u>	<u>2008</u>
Revenues		
Patient service revenue, net	\$ 41,788,800	\$ 40,889,220
Other revenue, net	1,293,480	1,208,328
Total revenues	<u>43,082,280</u>	<u>42,097,548</u>
Expenses		
Salaries and benefits (note 14)	16,264,447	15,338,320
Medical supplies and services	10,721,351	10,423,570
Depreciation and amortization (notes 9, 10 & 11)	2,688,368	2,642,571
Other operating	2,022,969	1,869,505
Utilities	1,641,442	1,387,956
Bad debt expense, net of recoveries (note 5)	1,586,566	2,251,827
Government taxes and fees (note 15)	1,051,835	947,747
Outside Services	872,378	933,869
Insurance	723,297	692,776
Repairs and maintenance	508,529	534,626
Rent	370,369	367,681
Dietary expenses	367,074	362,138
Legal expenses	29,143	345,752
Total expenses	<u>38,847,768</u>	<u>38,098,338</u>
Income before interest	4,234,512	3,999,210
Interest expense (note 13)	<u>(420,883)</u>	<u>(596,145)</u>
Net income	<u>\$ 3,813,629</u>	<u>\$ 3,403,065</u>
Earnings per common share (note 19):		
Basic and fully diluted	<u>\$ 0.38</u>	<u>\$ 0.34</u>

See accompanying notes.

Doctors Hospital Health System Limited
Consolidated Statement of Changes in Equity

Year ended January 31, 2009

	Number of Shares	Share Capital	Contributed Surplus	Retained Earnings
Balance at January 31, 2007	9,971,634	\$ 398,865	\$ 12,358,030	\$ 3,844,282
Net income for the year ended January 31, 2008		-	-	3,403,065
Dividends paid		-	-	(199,433)
Balance at January 31, 2008	9,971,634	398,865	12,358,030	7,047,914
Net income for the year ended January 31, 2009		-	-	3,813,629
Dividends paid (note 16)		-	-	(398,866)
Balance at January 31, 2009	9,971,634	\$ 398,865	\$ 12,358,030	\$ 10,462,677

See accompanying notes.

Doctors Hospital Health System Limited

Consolidated Cash Flow Statement

Year ended January 31, 2009

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 3,813,629	\$ 3,403,065
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts (note 5)	1,586,566	2,251,827
Depreciation and amortization	2,688,368	2,642,571
Gain on disposal of investment property	-	(15,958)
Loss on disposal of property, plant and equipment	-	4,602
	<u>8,088,563</u>	<u>8,286,107</u>
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,358,353)	(1,836,615)
Decrease in inventories	12,456	86,125
(Increase) decrease in other assets	154,922	(337,953)
(Decrease) increase in accounts payable and other liabilities	73,217	(25,108)
Cash provided by operating activities	<u>5,970,805</u>	<u>6,172,556</u>
Cash flows from investing activities		
Purchase of property, plant and equipment (note 11)	(3,920,529)	(1,301,239)
Purchase of intangible assets (note 9)	(11,631)	(126,094)
Proceeds from disposal of investment property	-	1,037,500
Proceeds from disposal of property, plant and equipment	-	400
Cash used in investing activities	<u>(3,932,160)</u>	<u>(389,433)</u>

Doctors Hospital Health System Limited

Consolidated Cash Flow Statement (Continued)

	<u>2009</u>	<u>2008</u>
Cash flows from financing activities		
Repayment of long-term debt (note 13)	\$ (2,942,120)	\$ (942,120)
Dividends paid to shareholders (note 16)	(398,866)	(199,433)
Cash used in financing activities	<u>(3,340,986)</u>	<u>(1,141,553)</u>
Increase in cash and cash equivalents	(1,302,341)	4,641,570
Cash and cash equivalents at beginning of year	<u>6,629,973</u>	<u>1,988,403</u>
Cash and cash equivalents at end of year (note 4)	<u>\$ 5,327,632</u>	<u>\$ 6,629,973</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 420,932	\$ 596,145
Cash received during the year for interest	<u>\$ 118,958</u>	<u>\$ 49,412</u>

See accompanying notes.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements

January 31, 2009

1. Corporate Information

Doctors Hospital Health System Limited (“DHHS” or the “Company”) was incorporated under the laws of the Commonwealth of The Bahamas on July 1, 1998. Shares of The Company are publicly traded and listed on the Bahamas International Securities Exchange. The Company provides a broad range of healthcare services. The consolidated financial statements for the year ended January 31, 2009 comprise the Company and its subsidiaries.

The Company’s registered office is located at Sassoon House, Shirley Street and Victoria Avenue, Nassau, Bahamas.

The consolidated financial statements of DHHS, for the year ended January 31, 2009, were authorized for issue by the directors on March 30, 2009.

2. Summary of Significant Accounting Policies

Statement of compliance

The consolidated financial statements of DHHS have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial assets and liabilities, which have been recorded at fair value, and loans, which have been recorded at amortized cost.

Corresponding figures

Comparative information has been reclassified to conform with the presentation of current period consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries: Doctors Hospital (Bahamas) Limited (DHB), Doctors Hospital (East) Limited (DHE), Doctors Hospital (West) Limited (DHW), and Western Medical Plaza Limited (WMP). The Company and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas. The financial statements of the subsidiaries are prepared for the same reporting period as the parent using consistent accounting policies. These consolidated financial statements are expressed in Bahamian dollars, which is also the Company’s functional currency.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Basis of consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. All inter-company accounts and transactions have been eliminated.

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities, income and expenses and disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for doubtful accounts

Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for doubtful accounts is based on management's assessment of historical and expected net collections, business and economic conditions and other collection indicators. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to "uninsured" amounts (including co-payments and deductible amounts from patients who have healthcare coverage) due directly from patients. Accounts are written off when all reasonable internal and external collection efforts have been performed. Adverse changes in general economic conditions, business office operations, payor mix, or trends in healthcare coverage could affect collection of accounts receivable, cash flows and results of operations.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows over a period of 5 years.

Contingencies

The Company is currently a defendant in a number of cases involving claims and disputes mainly related to medical practice. The Company's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling defense in these matters and is based upon an analysis of potential results. Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions, if any, will not have a material adverse impact on the Company's consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Adoption of IFRSs during the year

The Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year.

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Assets Minimum Funding Requirements and their Interaction

There were no effects on the Company's consolidated financial statements or notes to the consolidated financial statements due to the adoption of the above standards.

Future changes in accounting policies

Early adoption

The Company did not early adopt any new standards during the year.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

New standards, interpretations and amendments to published standards relevant to the Company that are not yet effective

Certain new standards, interpretations and amendments to existing standards have been published which the Company has not early adopted, as follows:

- IAS 1 Presentation of financial statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 27 Consolidated and Separate Financial Statements (Revised)
- IAS 36 Impairment of assets
- IFRS 2 Share Based Payments (Revised) effective 1 January 2009
- IFRS 3 Business Combinations (Revised) Effective 1 July 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IFRIC 15 Agreements for the Construction of Real Estate 1 January 2009
- IFRIC 17 Distributions of Non-Cash Assets to Owners Effective 1 July 2009

The Company has not early adopted any of the amendments to the standards following the 2007 'Improvement to IFRSs' project.

The Company does not anticipate any impact on the results of its operations from the implementation of these new standards when they become effective.

Cash and cash equivalents

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

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Financial instruments (continued)

On initial recognition a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale; and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

- (a) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
- (b) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

After initial recognition financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets and liabilities (continued)

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Inventories

Inventories consist of pharmaceutical and medical supplies. Inventories are stated at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition (including freight and duty) are accounted for on a first-in-first-out basis. Net realizable value is the estimated selling price less cost in the ordinary course of business.

Goodwill

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets represent the core computer software application in the Company's healthcare information system and are amortized using the straight-line method over a period of seven years.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost less accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

Buildings	20 - 40 years
Leasehold improvements	3 - 10 years
Equipment	3 - 10 years
Furniture and fixtures	3 - 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statement.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment) is included in the consolidated income statement in the year the asset is derecognized.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Investment property

Investment properties include properties which are held either to earn rental income or for capital appreciation or both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and accumulated impairment losses. Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement in the year of retirement or disposal.

Depreciation is calculated on a straight line basis over the useful life of the assets as follows:

Buildings	40 years
Leasehold improvements	10 years
Equipment	5 - 10 years
Furniture and fixtures	3 - 5 years

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognized in equity up to the amount of any previous revaluation.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

The Company assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized.

Impairment losses relating to goodwill cannot be reversed in future periods. The Company performs its annual impairment test of goodwill as at 31 January.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The determination of whether an arrangement is, or contains a lease at inception date is based on the substance of the arrangement of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Operating lease rentals are charged to the consolidated income statement on a straight line basis over the period of the lease and are included in rent expense.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Leases (continued)

Company as a lessor

Rental income is recognized as revenue in the period in which they are earned.

Revenue recognition

Rendering services

Net patient service revenue consists of patient service revenues that are recorded based upon established billing rates less allowances for contractual discounts. Revenues are recorded during the period the healthcare services are provided based on estimated amounts due from patients and third-party payors. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The estimated reimbursement amounts are subject to adjustment in subsequent periods as final settlements are determined based on detailed review of bills submitted for payment.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortization process.

Borrowing costs are expensed as incurred.

Pension benefits

The Company has a defined contribution plan. Contributions under the plan are recorded as expense in the consolidated income statement. There are no further obligations beyond the contribution.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Earnings per share

Basic earnings and fully diluted earnings per common share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during each year after giving retroactive effect to stock dividends declared during the year.

Income taxes

There are no income taxes imposed on the Company by the Commonwealth of The Bahamas.

Provisions

The Company accrues for estimated professional liability claims, to the extent not covered by insurance, when the claims are probable and reasonably estimable.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are not disclosed when the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events after the balance sheet date

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

3. Investments in Subsidiaries

The consolidated financial statements include the financial statements of the Company and the consolidated subsidiaries listed in the following table.

Name	Country of incorporation	Percentage of equity interest	
		2009	2008
Doctors Hospital (Bahamas) Limited	Bahamas	100	100
Doctors Hospital (East) Limited	Bahamas	100	100
Doctors Hospital (West) Limited	Bahamas	100	100
Western Medical Plaza Limited	Bahamas	100	100

4. Cash and Cash Equivalents

	2009	2008
Cash at bank and in hand	\$ 2,220,893	\$ 1,880,561
Short-term deposits	3,106,739	4,749,412
	<u>\$ 5,327,632</u>	<u>\$ 6,629,973</u>

Short-term deposits are made for varying periods of between 30 days and 3 months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

5. Accounts Receivable

Accounts receivable-patients, \$1,003,039 (2008: \$1,269,958) represent amounts due primarily from self-pay patients and balances due from insured patients after settlements by their insurers. The amount is net of allowance for doubtful accounts of \$1,794,171 (2008: \$4,676,795). Receivable from third-party payors, \$5,825,996 (2008: \$4,787,290) is presented net of allowance for doubtful accounts of \$1,013,104 (2008: \$1,475,673) and net of allowance for contractual discounts.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

5. Accounts Receivable (Continued)

Movement in the allowance for doubtful account was as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	\$ 6,152,468	\$ 6,106,957
Bad debt expense for the year	1,818,989	2,574,951
Doubtful receivables written off in the year	(5,164,182)	(2,529,440)
Balance at end of the year	<u>\$ 2,807,275</u>	<u>\$ 6,152,468</u>

Recoveries from accounts previously written off and other items were \$232,423 (2008: \$323,124).

At January 31, the ageing analysis of patient and 3rd party receivables, net of provisions, were as follows:

Patient	0-30	31-90	91-180	181-270	271-364	Total
2009	\$ 327,054	\$ 233,574	\$ 234,012	\$ 208,399	\$ -	\$ 1,003,039
2008	\$ 773,997	\$ 285,569	\$ 115,299	\$ 50,478	\$ 44,615	\$ 1,269,958

3rd Party Payors	0-30	31-90	91-180	181-270	Total
2009	\$ 4,289,051	\$ 1,026,461	\$ 510,484	\$ -	\$ 5,825,996
2008	\$ 3,344,340	\$ 825,122	\$ 617,828	\$ -	\$ 4,787,290

6. Inventories

	<u>2009</u>	<u>2008</u>
Medical supplies	\$ 868,464	\$ 822,374
Pharmaceuticals	284,964	343,510
Total inventories at the lower of cost and net realizable value	<u>\$ 1,153,428</u>	<u>\$ 1,165,884</u>

The amount of write-downs of inventories recognized as an expense is \$ 167,045 (2008: \$55,633) which is recognized in medical supplies and services on the consolidated income statement.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

7. Other Assets

	<u>2009</u>	<u>2008</u>
Prepaid expenses	\$ 289,579	\$ 509,110
Security deposits	151,265	151,265
Advances and other assets	133,088	68,479
	<u>\$ 573,932</u>	<u>\$ 728,854</u>

8. Goodwill

The goodwill recorded relates to the Company's acquisition of imaging subsidiaries. The Company tests goodwill for impairment annually or more frequently if there are indications that goodwill may be impaired. The tests were performed at January 31 and no impairment was deemed necessary. Therefore, goodwill at January 31, 2009 and 2008 totaled \$430,902.

9. Other Intangible Assets

	<u>2009</u>	<u>2008</u>
Cost:		
Balance at beginning of year	\$ 3,075,562	\$ 2,826,960
Additions	11,631	81,301
Work-in-progress	-	167,301
Balance at end of year	<u>3,087,193</u>	<u>3,075,562</u>
Accumulated amortization:		
Balance at beginning of year	652,406	249,258
Amortization for the year	420,955	403,148
Balance at end of year	<u>1,073,361</u>	<u>652,406</u>
Net Book Value	<u>\$ 2,013,832</u>	<u>\$ 2,423,156</u>

Other intangible assets represent the core computer software application in the Company's healthcare information system. Amortization expense is included in the line item 'depreciation and amortization' in the consolidated income statement.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

10. Investment Property

	2009			
	Land and Buildings	Leasehold Improvements	Furniture and Equipment	Total
Cost:				
Balance at beginning of year	\$ 5,703,061	\$ 153,812	\$ 424,745	\$ 6,281,618
Disposal	-	-	-	-
Balance at end of year	5,703,061	153,812	424,745	6,281,618
Accumulated amortization:				
Balance at beginning of year	971,632	78,466	363,091	1,413,189
Depreciation for the year	132,792	15,325	17,018	165,135
Balance at end of year	1,104,424	93,791	380,109	1,578,324
	<u>\$ 4,598,637</u>	<u>\$ 60,021</u>	<u>\$ 44,636</u>	<u>\$ 4,703,294</u>
				2008
	Land and Buildings	Leasehold Improvements	Furniture and Equipment	Total
Cost:				
Balance at beginning of year	\$ 1,021,542	\$ -	\$ -	\$ 1,021,542
Transferred from assets held for sale	5,703,061	153,812	424,745	6,281,618
Disposal	(1,021,542)	-	-	(1,021,542)
Balance at end of year	5,703,061	153,812	424,745	6,281,618
Accumulated amortization:				
Balance at beginning of year	573,255	32,492	302,350	908,097
Depreciation for the year	398,377	45,974	60,741	505,092
Balance at end of year	971,632	78,466	363,091	1,413,189
	<u>\$ 4,731,429</u>	<u>\$ 75,346</u>	<u>\$ 61,654</u>	<u>\$ 4,868,429</u>

Investment property for fiscal 2009 comprises three acres of land and three buildings of approximately 33,000 square feet. The Company will continue to lease the property until a buyer can be found.

An independent valuation of the land and buildings was performed by Bahamas Realty Limited on January 31, 2009 for a total of \$7,500,000 (2008: \$7,900,000).

Rental income for fiscal 2009 was \$74,302 (2008: \$129,307). Expenses associated with rental income for fiscal 2009 was \$288,456 (2008: \$361,023)

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

10. Investment Property (Continued)

The Company carries long-term debt directly associated with the investment property bearing interest at a rate of prime plus 1.5% per annum. Repayment is in accordance with an established amortization schedule but is payable on demand at the discretion of the bank. The loan is collateralized by real estate, machinery and equipment, and a floating charge over all other assets of the Company. At January 31, 2009 and 2008 all available funds had been fully drawn under this credit line. Principal repayment during fiscal 2009 was \$2,553,620 (2008: \$553,620) with interest of \$201,618 (2008: \$350,318), leaving a loan balance of \$2,151,998 (2008: \$4,705,618).

11. Property, Plant and Equipment

	2009			
	Land and Buildings	Leasehold Improvements	Furniture and Equipment	Total
Cost:				
Balance at beginning of year	\$ 10,037,790	\$ 1,007,424	\$ 14,110,669	\$ 25,155,883
Additions	-	353,314	3,567,216	3,920,530
Disposal	-	(31,076)	(2,065,999)	(2,097,075)
Balance at end of year	10,037,790	1,329,662	15,611,885	26,979,338
Accumulated amortization:				
Balance at beginning of year	6,171,311	421,941	9,642,167	16,235,419
Depreciation for the year	146,904	133,961	1,821,413	2,102,278
Disposal	-	(31,076)	(2,065,999)	(2,097,075)
Balance at end of year	6,318,215	524,826	9,397,581	16,240,622
	\$ 3,719,575	\$ 804,836	\$ 6,214,304	\$ 10,738,716
	2008			
	Land and Building	Leasehold Improvements	Furniture and Equipment	Total
Cost:				
Balance at beginning of year	\$ 10,037,790	\$ 987,846	\$ 13,820,186	\$ 24,845,822
Additions	-	42,966	1,258,273	1,301,239
Disposal	-	(23,388)	(967,790)	(991,178)
Balance at end of year	10,037,790	1,007,424	14,110,669	25,155,883
Accumulated amortization:				
Balance at beginning of year	6,019,073	332,897	9,135,294	15,487,264
Depreciation for the year	152,238	112,432	1,469,661	1,734,331
Disposal	-	(23,388)	(962,788)	(986,176)
Balance at end of year	6,171,311	421,941	9,642,167	16,235,419
	\$ 3,866,479	\$ 585,483	\$ 4,468,502	\$ 8,920,464

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

11. Property, Plant and Equipment (Continued)

During the year, fully depreciated equipment of \$2,097,075 (2008: \$962,788) was retired from service. Included in leasehold improvements, furniture and equipment at January 31, 2009 are fully depreciated assets of \$5,259,258 (2008: \$4,939,852).

12. Accounts Payable and Other Liabilities

	<u>2009</u>	<u>2008</u>
Accounts payable (trade)	\$ 1,086,611	\$ 1,058,441
Accrued expenses	878,409	735,324
Other liabilities	783,756	721,901
Vacation Benefit Accrual	391,458	599,564
Related party payable (note 17)	375,430	327,217
	<u>\$ 3,515,664</u>	<u>\$ 3,442,447</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
- Accrued expenses are non interest bearing and are settled throughout the financial year.
- Vacation benefit accrual is non interest bearing and employees are encouraged to take time due in the year it is earned.
- Other liabilities are non interest bearing and are normally settled throughout the financial year.
- Related party payable is non interest bearing and payable to Radiology Associates only when the corresponding amount in trade receivables is received by the Company. See note 17 for further information.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

13. Bank Borrowings

	<u>2009</u>	<u>2008</u>
Loans payable to bank		
in monthly installments	\$ 5,065,534	\$ 8,007,654
Less current portion	(942,120)	(942,120)
	<u>\$ 4,123,414</u>	<u>\$ 7,065,534</u>

The loans bear interest at a rate of prime plus 1.50% per annum and are inclusive of the loans described in Note 10 on investment property. Repayment is in accordance with an established amortization schedule but is payable on demand at the discretion of the bank. During fiscal 2007, the Company restructured its loan portfolio. In addition to a reduction in rates, the amortization periods were extended to ten years. The loans are collateralized by property, plant and equipment, and a floating charge over all other assets of the Company. At January 31, 2009 and 2008 all available funds had been fully drawn under this credit line.

Estimated minimum principal payments required on the loans subsequent to January 31, 2009 are as follows:

2010	\$ 942,120
2011	942,120
2012	942,120
2013	879,638
2014	388,500
Thereafter	<u>971,036</u>
	<u>\$ 5,065,534</u>

The Company has an additional credit line available of \$4.1 million (2008: \$4.1 million) to assist with funding major capital projects and future expansion. As of January 31, 2009 and 2008, the full amount of the credit line was un-drawn and available.

The Company also maintains an overdraft facility to finance working capital needs. The facility is secured by an assignment of accounts receivable. Interest is charged at the Bahamian dollar prime rate plus 1.25% per annum. At January 31, 2009, approximately \$2.7 million (2008: \$2.7 million) was undrawn and available.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

14. Salaries and Benefits Expense

	2009	2008
Salaries and benefits (note 17)	\$ 15,541,060	\$ 14,675,434
National insurance costs	396,478	361,974
Pension costs - defined contributions plan (note 18)	326,909	300,912
	<u>\$ 16,264,447</u>	<u>\$ 15,338,320</u>

15. Government Taxes and Fees

	2009	2008
Business license	\$ 422,863	\$ 390,626
Work permit fees	366,024	294,173
Property taxes	262,948	262,948
	<u>\$ 1,051,835</u>	<u>\$ 947,747</u>

16. Dividends Paid

	2009	2008
Declared and paid in year:		
Equity dividend on ordinary shares:		
Final dividend for 2009 \$0.04 (2008: \$0.02)	\$ 398,866	\$ 199,433
	<u>\$ 398,866</u>	<u>\$ 199,433</u>

The Board of Directors approved a dividend on March 30, 2009 for \$0.02 per share for a total of \$199,433. This amount was not recognized as a liability as at January 31, 2009.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

17. Related Party Transactions and Balances

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Entities with significant influence over the Company	Year	Purchases from Related Parties	Amounts owed to Related Parties
Trauma and Emergency Medical Services Limited (TEMS)	2009	\$ 2,239,893	\$ 116,858
	2008	2,207,898	96,428
Radiology Associates Limited	2009	1,794,649	375,430
	2008	1,774,856	327,217

Key management personnel	Year	Purchases from Related Parties	Amounts owed to Related Parties
Rassin Holdings Ltd.	2009	\$ 60,000	\$ -
	2008	60,000	-
Barry and David Rassin	2009	\$ 48,000	\$ -
	2008	48,000	-
Med Management Limited	2009	\$ 48,300	\$ -
	2008	48,300	-
Other directors' interest	2009	\$ 27,979	\$ -
	2008	18,717	-

Entities with significant influence over the Company

Trauma and Emergency Medical Services Limited (TEMS)

One of the directors is a principal in TEMS, the company contracted to provide physician service in the Company's emergency department.

Radiology Associates Limited

One of the directors is a principal in Radiology Associates, the Company contracted to provide radiologist services in the Company's imaging department.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

17. Related Party Transactions and Balances (Continued)

Other directors' interests

During the year, the Company made purchases totaling \$27,979 (2008: \$18,717) from IBM (Bahamas) Limited (IBM) and other international subsidiaries of IBM. One of the Company's Directors is a senior executive of IBM. At January 31, 2009 and 2008, the Company has no outstanding liability to IBM.

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended January 31, 2009 and 2008, the Company had no debts relating to amounts owed by related parties.

Transactions with other related parties

Compensation of key management personnel:

	<u>2009</u>	<u>2008</u>
Short-term employee benefits	\$ 1,392,050	\$ 1,444,318
Post-employment pension benefits	107,752	104,803
Total compensation paid to key management personnel	<u>\$ 1,499,802</u>	<u>\$ 1,549,121</u>

18. Pension Plan

The Company has a defined contribution pension plan. Contributions to the plan amount to 10% of gross salaries of eligible Associates. The Company makes 100% of the 10% contribution for executive management personnel and matches all other Associate contributions up to 5% of gross salaries. Company and Associate contributions for the year ended January 31, 2009 amounted to \$568,223 (2008: \$571,290).

19. Earnings per Share

Basic earnings and diluted earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

19. Earnings per Share (Continued)

The following reflects the income and share data used in the basic earnings per share computations for the year ended January 31:

	<u>2009</u>	<u>2008</u>
Net income	\$ 3,813,629	\$ 3,403,065
Weighted average number of ordinary shares on issue applicable to basic earnings per share	9,971,634	9,971,634
Earnings per share	<u>\$ 0.38</u>	<u>\$ 0.34</u>

20. Commitments

Operating lease commitments

Rental expenses for facilities and parking lots were approximately \$376,219 (2008: \$371,066).

Future minimum lease rentals are as follows as of January 31:

	<u>2009</u>	<u>2008</u>
Within one year	\$ 380,831	\$ 376,219
After one year but not more than five years	630,019	839,700
	<u>\$ 1,010,850</u>	<u>\$ 1,215,919</u>

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

21. Contingencies

The Company is subject to claims and lawsuits in the ordinary course of business. The largest category of these relates to medical malpractice. The results of claims, lawsuits and investigations cannot be predicted, and it is possible that from time to time the ultimate resolution of such matters, individually or in the aggregate, may have a material adverse effect on the Company, financial position, results of operation or cash flows.

When necessary, the Company defends itself vigorously against claims and lawsuits. However, the Company recognizes that, where appropriate, its interests may be best served by resolving certain matters without litigation. To that end, DHHS consistently engages in service recovery initiatives to satisfy customer needs and expectations and to achieve a non-litigated resolution of patient concerns. The Company records provisions for claims and lawsuits when they are probable and estimable. The accrued amounts for estimated professional liability claims, to the extent not covered by insurance, are included in accounts payable and other liabilities.

22. Risks Associated with Financial Instruments

The Company's principal financial instruments consist of cash and cash equivalents and its various bank loans. The Company has other financial instruments such as accounts receivable and accounts payable, which arise directly from its operations. The Company does not enter into derivative transactions.

Financial risk management objectives and policies

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The Company has written risk management policies and guidelines which set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control its financial instruments in a timely and accurate manner. Such written policies are reviewed annually by the Board of Directors and quarterly reviews are undertaken to ensure that the Company's policy guidelines are adhered to.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

22. Risks Associated with Financial Instruments (Continued)

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations. All of the Company's bank loans have floating rates of interest. However, the interest rates are based on the Bahamian prime rate which, historically, has remained relatively stable, thus reducing the Company's exposure to changes in interest rate risk.

The following table demonstrates the sensitivity to reasonable possible change in interest rates, with all other variables held constant, of the Company's profit.

	Increase/decrease in basis points	Effect on profit
2009	+1%	\$ 50,000
	-1%	\$ (50,000)
2008	+1%	\$ (90,000)
	-1%	\$ 90,000

Credit risk

Credit risk arising from the inability of the counterparty to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. It is the Company's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Company does not expect to incur material credit losses on its risk management or other financial instruments. The Company's maximum exposure to credit risk in the event the counterparties fail to perform their obligations at January 31, 2009 in relation to each class of financial assets, is the carrying amount as indicated in the consolidated balance sheet.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

22. Risks Associated with Financial Instruments (Continued)

Concentrations of credit risk

The Company grants credit without collateral to its patients, most of which are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at January 31 was as follows:

	<u>2009</u>	<u>2008</u>
Patients	15%	21.0%
Third party payors	75%	63.0%
National Insurance Board	10%	16.0%
	<u>100.0%</u>	<u>100.0%</u>

Liquidity risk

The Company is exposed to liquidity risk in connection with its debt obligations, accounts payable and accrued expenses. Liquidity risk arises if the Company is unable to collect its receivables quickly at fair value, thereby affecting the Company's ability to repay its debts. The Company monitors its cash flows on a regular basis and has access to overdraft facilities as described in Note 13.

Operational risk

Operational risk is the risk that deficiencies in information systems or internal controls result in unexpected business, financial and operating losses. The identification and control of these risks is managed by the Company's management team. The Company's management team conducts regular reviews of all operational areas to ensure operational risks are being properly controlled and reported to the Finance/Audit Committee. Contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

Fair value of financial instruments

Financial instruments utilized by the Company include recorded assets and liabilities. All of the Company's financial instruments are short-term in nature or have interest rates that reset to market on a regular basis. Accordingly, the estimated fair value of the financial instruments is not materially different from the carrying value for each major category of the Company's recorded assets and liabilities.

Doctors Hospital Health System Limited

Notes to Consolidated Financial Statements (Continued)

23. Capital Management

The primary objective of the Company's capital management program is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end January 31, 2009 or January 31, 2008.