Passionate about Pets

Greencross Vets

18 December 2012

GREENCROSS LIMITED (ASX: GXL) Announcement
Accounting treatment of deferred purchase price payments

Greencross Limited ('Greencross' or 'The Company') shareholders recently appointed PricewaterhouseCoopers ('PWC' or 'The Auditors') as the auditors of the Company at the recent Annual General Meeting held on 25 October 2012.

As part of the Auditors' initial appointment they commenced their reviewed of the Company's accounting treatment of all acquisitions. During this review they found what they believe to be an error in the Company's accounting treatment in relation to approximately $2.3m of deferred settlement payments (out of a total deferred settlement liability of approximately $3.1 million). This error has no impact on the Company's ongoing operations, its cashflows or its ability to pay dividends. Greencross remains comfortable with existing guidance for FY13 of underlying EPS growth of at least 15%.

The business purchase agreements of eight (of a total of 35 acquisitions completed) of the most recent acquisitions made by the Company erroneously contained a link between the employment of the vending vet and the payment of part of the purchase price for the business which is deferred until a fixed date after completion of the acquisition (typically one or more years following completion). If enforced, the effect of the link between employment and the deferred purchase price payment would be that the vending vet would not be entitled to receive the deferred payment unless they remain in the employment of Greencross.

Accounting standard AASB 3 requires deferred settlements that have a contingent link to the employment of the seller to be expensed as remuneration rather than capitalised as goodwill. The impact of this would be non-cash expense. Greencross' practice, cleared by its previous auditors, has been to capitalise all such deferred settlements on the balance sheet of the Company, as part of the goodwill included in the purchase price.

The Company encourages as many of the vending veterinarians as possible to remain with the Company to work as a Veterinary Director. The Company has not intentionally linked, and will not link in the future, any deferred purchase payments with the continued employment of the vending vet (i.e. future deferred settlement payment are not used as a method of motivation for the Company's 350 Vets).

Greencross has sought legal advice from Clayton Utz solicitors on this matter. It is Clayton Utz's opinion that at law a common mistake has occurred in eight of the affected business purchase agreements, and that it can be rectified by the parties as if the contracts never contained the mistake. Greencross is in the process of rectifying those eight contracts to accurately reflect the intent of the parties by removing any perceived link between the employment of the vending vet and the deferred settlement.

PWC disputes the ability of Greencross to rectify the intent of both parties to resolve the accounting discrepancy that has been identified. As such, Greencross understands that PWC will inform the Australian Securities and Investment Commission ('ASIC') of this claimed discrepancy. In line with legal advice, Greencross vigorously refutes this claim based on the intent of the parties when entering into the contracts concerned and the legal advice the Company has received in relation to the ability to rectify the common mistake as if the contracts never contained the mistake.

Notwithstanding this, the Company will accept PWC's proposed treatment of the relevant deferred purchase price payments and make appropriate changes to its financial statements. In doing so, the Company notes that:

1. There is no change to the underlying business, or the underlying earnings, of the Company. The Company remains confident that underlying EPS growth will be greater than 15% for the 2013 financial year;
2. There is no change in the timing of cashflows for the deferred settlement payments and as such there is no effect on the timing of cashflows of the Company;
3. There will be no effect on the Company's ability to pay dividends. The Company will continue to make dividend payments of 50% of its earnings which will be determined before any adjustments for the deferred settlement payments that are in question;
4. The Company has confirmed with its financiers, the Commonwealth Bank of Australia, that there will be no impact on its ability to meet its banking covenants, and that existing funding lines remain available for the Company's use in terms of the current Facility Agreement; and
5. The Company will continue to make acquisitions and will ensure that there is no ambiguity in future business purchase agreements.

The Company will continue to work with PWC to identify the required changes to the Company's financial statements, and will make further announcements to ASX as appropriate.

If investors or the ASX have any queries in relation to this matter can they please contact either the Managing Director (Dr Glen Richards) or the Company Secretary (Mr Wesley Coote) on (07) 3435 3535.

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ABOUT GREENCROSS

Greencross was established in 2003 and has grown to become Australia's leading veterinary services company through the acquisition and integration of 86 practices around Australia.

Greencross's strategy is to continue to consolidate the fragmented veterinary services industry in Australia and is focused on delivering exceptional veterinary medicine and levels of care to its patients. The Company's vision is to be the practice of choice for employees, clients, patients and shareholders.

For further information please contact:

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