

Company Name: CAC Holdings Corporation
Representative: Akihiko Sako, President and CEO
(First Section of TSE, Code Number 4725)
Contacts: Masaaki Yoshida, General Manager,
Corporate Dept. (Tel: +81-3-6667-8010)

Measures to Prevent Recurrence of Recording of Losses in Relation to Overseas Consolidated Subsidiaries

As announced in the “Notice of Announcement of Financial Results at Overseas Consolidated Subsidiaries” dated February 9, 2016, Accel Frontline Limited (headquartered in Chennai, India; listed on the Bombay Stock Exchange and the National Stock Exchange of India; hereinafter “AFL”), an overseas consolidated subsidiary of CAC Holdings Corporation (“the Company”), conducted a survey of accounts receivable-trade for the three years from the fiscal year ended March 31, 2013 to the fiscal year ended March 31, 2015 and subsequently found certain accounts receivable-trade, etc. for which the recording of an allowance for doubtful accounts was reasonable.

In response to this issue, on March 15, 2016 the Company established an advisory committee, whose members include outside experts, to consider measures for preventing a recurrence of the issue. The Company has recently prepared measures for preventing a recurrence based on proposals received from the advisory committee, and the Board of Directors meeting held today resolved to adopt the measures. The details are as follows.

1. Circumstances and outline of the issue

In December 2013, the Company decided to take a stake in AFL, and made it a consolidated subsidiary in March 2014. To improve the corporate governance of the CAC Group, in 2015 the Company replaced AFL’s audit corporation with an audit firm that belongs to the same group as the Company’s audit corporation. At the same time, the Company had the Director who had been dispatched to AFL implement management enhancement initiatives, and certain accounts receivable-trade, etc. with a low possibility of collection were discovered during this process. At the request of the Company, AFL commenced a survey of accounts receivable-trade for the three years from the fiscal year ended March 31, 2013 to the fiscal year ended March 31, 2015, with Deloitte Touche Tohmatsu India LLP as an independent auditor. The interim report of the survey showed the amount of the accounts receivable-trade, etc. for which the recording of an allowance for doubtful accounts was reasonable (“Notice of Announcement of Financial Results at Overseas Consolidated Subsidiaries” dated February 9, 2016).

On March 14, 2016 (in India), the final report of the survey was submitted to AFL’s Board

of Directors, and the Board began to consider the necessary measures. Many of the accounts receivable-trade had a low possibility of collection, and this inappropriate accounting treatment had occurred under the management and supervision of Mr. N. R. Panicker, the founder of AFL. AFL's Board of Directors suspended the execution of the Chairman's duties of Mr. Panicker, who was the Executive Chairman of AFL ("Notice of Announcement Made by Overseas Consolidated Subsidiary" dated March 22, 2016). Mr. Panicker resigned as Director of AFL as of March 31, 2016, when his term of office expired.

The monetary impacts of AFL's inappropriate accounting treatment on the Company's financial results were a ¥736 million loss on the business of subsidiaries and associates and a ¥653 million impairment loss of goodwill associated with AFL, which were recorded as extraordinary losses in the fiscal year ended December 31, 2015, and ¥602 million business foundation improvement costs recorded as an extraordinary loss in the first six months of the fiscal year ending December 31, 2016.

In light of the significance of this situation, the Chairman, the President and CEO, and one of the Directors of the Company voluntarily offered to forfeit a portion of their executive remuneration, and their monthly compensation was partially reduced for a certain period of time.

2. Preventive measures

The Company took the situation seriously, and on March 15, 2016 it established an advisory committee, which is chaired by an Outside Director and whose members include an outside attorney at law and a public accountant, to consider measures for preventing a recurrence of the issue.

The Company will ensure that it strictly implements the preventive measures that were formulated based on the proposals received from the advisory committee as described below, and that similar problems are avoided in the future.

(1) Enhancement of corporate acquisition process

The Company recognizes the possibility that the due diligence conducted at the time when it was considering acquiring AFL was insufficient for the appropriate evaluation of a foreign company, especially a company in an emerging country.

Based on this recognition, the Company will prepare due diligence guidelines and a list of matters subject to careful scrutiny in order to exercise due diligence that takes individual legal and tax systems and accounting standards fully into account as they vary from country and country, and will ensure that it adheres to these guidelines and list when exercising due diligence. The Company will also formulate a policy for selecting entities for outsourcing the implementation of due diligence and assign appropriate contractors.

(2) Improvement of integration process after corporate acquisition

The Company recognizes that it has placed undue reliance on AFL's internal control system based on the fact that AFL is a listed company, and that it has allowed AFL to conduct the autonomous management and operation of the business continuously following acquisition.

When acquiring another company in the future, the Company will promptly develop a system to gain control of the state of the business and head office departments of the acquired company. Depending on the circumstances, the Company will exercise due diligence of the financial and legal affairs of the acquired company following its acquisition. The Company will also formulate a policy for selecting an audit corporation, etc. for the acquired company.

(3) Enhancement of control over overseas subsidiaries

The Company will enhance its functions for managing overseas subsidiaries through such means as the establishment of an organization exclusively in charge of managing overseas subsidiaries and hiring external professionals. It will also confirm the appropriateness of accounting practices and compliance with laws and strengthen governance functions by conducting periodic on-site inspections of the financial and legal affairs of overseas subsidiaries.

Furthermore, the Company will consider developing and adopting the minimum accounting procedures to be followed by overseas subsidiaries (minimum rules) in order to facilitate the prevention of inappropriate accounting practices.

The Company will ensure that officers and persons in charge of the management of various matters, who are to be dispatched to overseas subsidiaries, and officers and managers of overseas subsidiaries are thoroughly aware of the matters to be complied with by the companies under the CAC Group. It will also enhance education and training on risk management, including the prevention of inappropriate accounting practices, compliance with laws and corporate governance. In addition, it will develop an internal whistle-blowing system that includes overseas subsidiaries, and seek to familiarize employees with the system and promote its use.

We sincerely apologize once again to our shareholders and stakeholders for the concern and inconvenience we have caused by allowing this regrettable situation to occur. We would deeply appreciate your understanding as the Group devotes its efforts to implementing measures for preventing recurrence and regaining your trust.

End.