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For immediate release

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Notice Regarding Material Weakness in Internal Control over Financial Reporting that Should be Disclosed

Demaecan Co., Ltd. (the “Company”) hereby announces that the internal control report for the fiscal year ended August 31, 2021 (the 22nd period) submitted to the Kanto Local Finance Bureau on December 28, 2021, in accordance with Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act, states that there were material weakness that should be disclosed and that the internal control over financial reporting of the Company was not effective.

Details

1. Details of material weakness to be disclosed

The Company, as mentioned in the “Notice Regarding the Holding of an Adjourned Meeting of the 22nd Annual General Meeting of Shareholders” announced on November 12, 2021 and “Notice Concerning the Establishment of an Internal Investigation Committee” announced on November 30, 2021, the accounting firm engaged in the audit indicated that it had determined the existence of an error in the balance of payables and receivables in the process of auditing procedures related to the Company's financial statements for the fiscal year ended August 2021. Accordingly, the Company has established an internal investigation committee on November 30, 2021, and continued the investigation since then.

Today, the Company received an investigation report from the internal investigation committee and was informed that there was an overstatement in account payables and account receivables and an understatement in cost of sales (agency fee costs, etc.) since past fiscal year.

After examining the details of the investigation report, the Company, in order to amend the overstatement of accounts receivable and accounts payable and the understatement of cost of sales (agency fee costs, etc.), amended its Annual Securities Report for the fiscal year ended August 31, 2020, and the Quarterly Reports for the first quarter of the fiscal year ended August 31, 2020, through the third quarter of the fiscal year ended August 31, 2021, and submitted an amendments report on December 28, 2021.

The direct causes of errors mentioned above lies in the inappropriate treatment of accounts receivable at the end of the quarters and inadequate management of the balance of accounts payable, however, the Company acknowledges that it did not adequately recognize the risks of high-volume and complex accounting process arising from the rapid expansion of the Company's Demae-can business, and consequently, it delayed establishing the framework to address such risks and therefore an operational process or a manual to ensure proper accounting process were never developed.

The Company has determined that these weaknesses of internal control have a material impact on financial reporting, and thus, they are considered material weaknesses that should be disclosed with respect to company-wide internal control, internal control over accounting and financial reporting process and merchant process.

2. Reasons for failure to amend by the end of the fiscal year

The reason why the above material weaknesses of internal control regarding financial reporting that should be disclosed could not be amended by the end of the fiscal year under review is that these facts were identified after the end of the fiscal year under review.

3. Policy for amending weaknesses that should be disclosed

The Company recognizes the importance of internal control over financial reporting, and it will endeavor to maintain and operate proper internal control by taking the following improvement measures based on the suggestions and recommendations of the internal investigation committee to amend this material weakness to be disclosed.

1. Holding regular cross-departmental risk assessment meetings including the Finance and Accounting Group
2. Increasing the number of employees in the Finance and Accounting Group to strengthen its accounting structure
3. Developing accounting process manuals for transactions with franchisees and settlement agents
4. Strengthening and thoroughly managing accounts receivable and accounts payable by counterparty
5. Strengthening ratio analysis of agency fee costs
6. Strengthening journal entries in the franchisee process

4. Impact on Financial Statements and Consolidated Financial Statements

All the necessary amendments concerning the above material weakness to be disclosed have been reflected in the financial statements and the consolidated financial statements.

5. Audit opinion on the Financial Statements and Consolidated Financial Statements
Unqualified opinion