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August 25, 2025

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## **Notice Concerning Material Issues in Internal Controls on Financial Reporting That Should be Disclosed, and Submission of Amendment Report to Internal Control Report**

As announced in “Notice Concerning Submission of Amendment Report Pertaining to Securities Report from Prior Fiscal Years and Amendment to Financial Results for Prior Fiscal Years” released today, KEY COFFEE INC (the “Company”) submitted an amendment report pertaining to securities reports for prior fiscal years to the Director-General of the Kanto Local Finance Bureau. The Company also made amendments to its Financial Results for prior fiscal years and has disclosed them.

In line with this submission and amendments, the Company hereby announces that it has, today, submitted an “Amendment Report to an Internal Control Department” to the Director-General of the Kanto Local Finance Bureau in accordance with Article 24-4-5, Paragraph 1 of the Financial Instruments and Exchange Act.

We sincerely apologize for the significant inconvenience and concern caused to shareholders, investors, and other stakeholders.

### **1. Areas to be amended**

Internal Control Report 73th term (April 1, 2024 to March 31, 2025)

### **2. Reason for amendment**

Of the internal control report referred to above, [3. Matters Concerning Evaluation Results] will be amended as follows:

### **3. Matters Concerning Evaluation Results**

(Pre-amendment)

As a result of the above evaluation, the Company has determined that the internal controls pertaining to the Company’s financial reporting are sufficient as of March 31, 2025.

(Post-amendment)

The Company has determined that the issues in internal control over financial reporting described below will have a significant impact on the financial reporting and constitute material issues that should be disclosed. Therefore, the Company has determined that the internal controls pertaining to the Company's financial reporting has not been sufficient as of March 31, 2025.

## **1. Details of material issues that should be disclosed**

In July 2025, the Company discovered that its new core system, introduced in January 2025, was recording merchandise and products that were being transferred between the Company's warehouses (including contracted warehouses) as in-transit inventory even though the said merchandise and products had already been received at the destination warehouse. Therefore, we have decided to submit an amendment report to the securities report submitted on June 25, 2025, that will address the issue of the cost of sales being understated due to the over-reporting of inventory value. The cause of this accounting error has been deemed by the Company to be a failure to properly implement company-wide internal controls (response to IT-related matters), a failure to properly implement acceptance verification procedures as part of "Software quality control" in the general IT controls, and a failure to properly implement internal controls pertaining to business processes relating to inventory.

### **(1) Failure to properly implement company-wide internal controls (response to IT-related matters)**

Consultation on important matters pertaining to IT was provided to the Board of Directors and the Executive Council, and the implementation of the core system was approved by the Board of Directors. However, certain information, such as the content and frequency of the information that should be communicated under the new system, was not clearly defined, which meant that the information required to make a decision was not communicated in a timely fashion. Additionally, while policies and procedures for general IT controls were in place, concrete steps had not been established for assembling project teams during important system introductions or for building a framework for software acceptance verification procedures.

### **(2) Inadequate general IT controls: Failure to properly implement acceptance verification procedures as part of software quality control**

When transferring merchandise and products between Company warehouses (including contracted warehouses), a customized program was used to import data on items that had been received from particular Company warehouses into the core system. This customized program had been set up in such a way that if a particular item in the shipment data was split across several data-entry lines, all information contained on the second line and thereafter would not be correctly processed when that item was received at the destination warehouse. Therefore, the data for these items that had generated errors was processed manually. However, these items that had to be manually processed were not reflected in the decline of in-transit inventory at the dispatching warehouse end, which lead to a situation where the stock of those items was overstated on the system. Although acceptance verification procedures were implemented in the customized program, the focus of the verification was changes in the book inventory at the receiving warehouse end, with no verification performed at the dispatch end to check that the in-transit inventory was being reduced. Therefore, it had not been possible to detect the failure. The reason why there was not a more comprehensive acceptance verification procedure in place was that the specific items that were to be checked under the acceptance verification procedures were decided on by the respective system developers (IT division, etc.) for each of the customized programs, with no framework in place for ensuring double-checks by the end-users (logistics division). The procedures for verifying acceptance were also inadequate, including a failure to comprehensively verify that the processing of merchandise and products was reflected in the Company's financial accounting.

- (3) Inadequate internal controls pertaining to business processes: Failure to properly implement verification processes for in-transit inventory at the end of financial periods

In the process for verifying the status of inventory at the end of financial periods, a list of outgoing items that were in-transit as of the end of the period (shipment date: current month, delivery date: following month) is output by the core system for confirmation. However, as the in-transit inventory that had been overstated as a result of the aforementioned error were not reflected in this list, it had not been possible for the Company to realize the error during the end-of-period verification process. However, in retrospect, there should have been a process in place to verify that the above-mentioned list of outgoing items covered absolutely all in-transit inventory within the core system.

The Company has determined that the failure to properly implement these internal controls will have a significant impact on the financial reporting and constitute material issues that should be disclosed. All necessary changes relating to the aforementioned material issues that should be disclosed are reflected in the amendment report to the already submitted securities report.

## **2. Reason the issues were not rectified before March 31, 2025**

The situation described above was not discovered until after the fiscal year had ended and therefore it was not possible to rectify the said issues before March 31, 2025.

## **3. Policy for rectifying the material issues that should be disclosed**

The Company is acutely aware of the importance of internal controls in financial reporting and will implement the following measures to prevent recurrence of the aforementioned issues.

- (1) Improvements to company-wide internal controls (response to IT-related matters)

In addition to clarifying the content and frequency of information communicated to the Board of Directors and Executive Council during the introduction of important systems, we will also stipulate the specific procedures for assembling project teams and establishing the framework for software acceptance verification procedures.

- (2) Improvements to customized programs

We have implemented improvements to the customized programs used. Specifically, in cases where a particular item in the shipment data is split across several data-entry lines, as long as the shipment data and incoming item data match, the item is processed as having been received, thereby reducing the frequency at which manual input is required. For cases where manual input is still required because of a data mismatch, we have changed to a system in which both the incoming item data and the shipment data are reflected, thereby preventing recurrence of the issue detailed above.

- (3) Strengthening and clarification of the acceptance verification procedures on customized programs

We will strengthen and clarify the acceptance verification procedures used on customized programs. Specifically, we have put in place a framework of double checks between the system developers (IT division) for each of the customized programs and the end-users for when determining which items need to be checked during the acceptance verification process. We are also considering bringing in external specialists for when introducing important systems in the future, such as when making changes to the core system. Furthermore, for programs that have a direct impact on the Company's financial statements, we have determined that the input of the finance division on verifications of test methods is now mandatory. In addition, we will check not only the operation of the system but also if the results of system processes are reflected appropriately in the financial statements. These changes have been set out in the Company's internal rules and should prevent the recurrence of the same issues again in future.

(4) Additional procedures for checking in-transit inventory when preparing inventories for financial reports

Checks of the status of in-transit inventory are currently performed using lists of outgoing items at each warehouse department when preparing inventories for financial reports. However, we are now adding a business process for checking that the in-transit inventory is accurate using the system response and operational checks outlined below. Doing this will allow us to check the status of changes in in-transit inventory company-wide.

1) System response

We will establish and implement a system that will cross-reference the quantities of in-transit inventory in the book inventory data at the end of the period against the quantities of in-transit inventory in the shipment data which forms the original source data of the list of outgoing items. This system will then be used to check for discrepancies.

2) Operational checks

We will add a business process for having the Finance Department, which is the main division responsible for inventory management, check the discrepancies in company-wide in-transit inventories confirmed in the system response described above. In so doing, we will improve the process so that if any discrepancies in company-wide in-transit inventories are identified, the division in which the discrepancy was identified will be instructed to perform checks and fix the situation.