

# Annual Report 2012

Year Ended March 31, 2012



A Company that Takes on the Global Market

**PROTO CORPORATION**

**JASDAQ**  
4298

# PROTO CORPORATION IS THE MARKET LEADER IN AUTOMOTIVE INFORMATION SERVICES

## Sales and Operating Income (Consolidated)

Years ended March 31

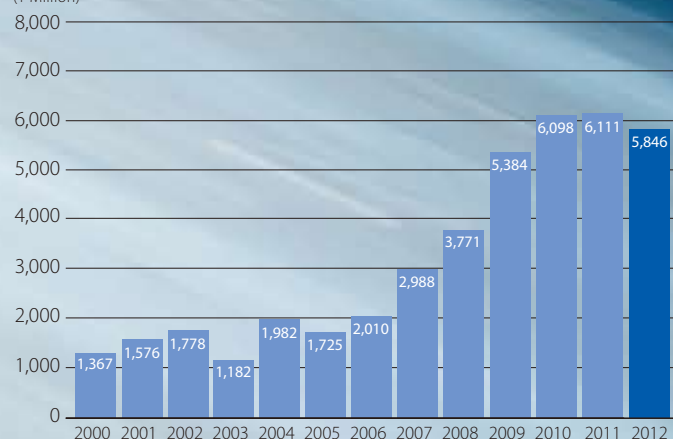
### Net Sales

(¥ Million)



### Operating Income

(¥ Million)



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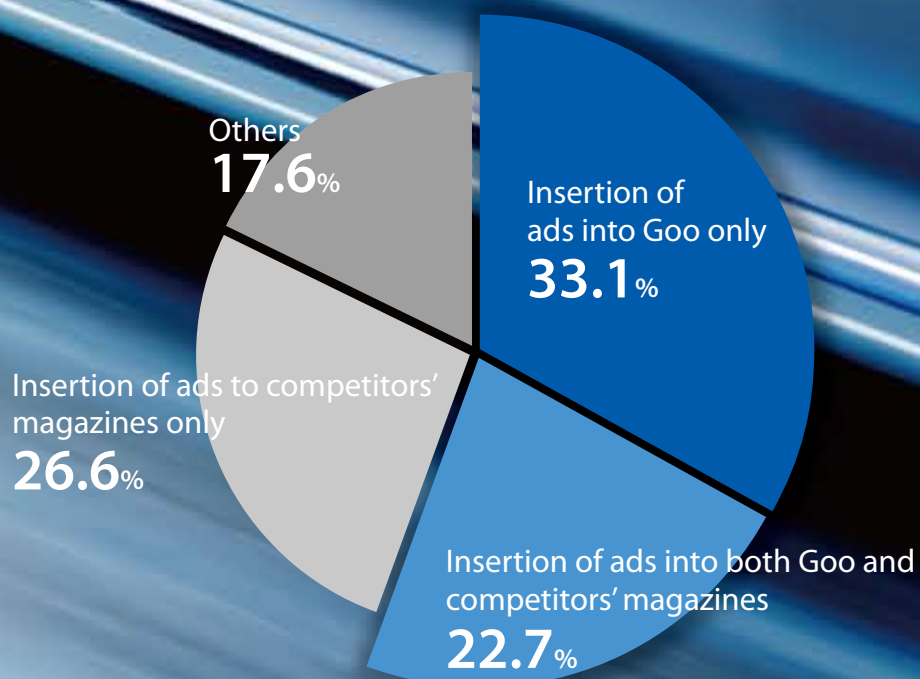
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### Forward-Looking Statements

This annual report contains forward-looking statements that reflects the Proto Group's plans, strategies and expectations.

Such statements are based on management's assumptions and beliefs, taking into account information currently available to it, and involve risks and uncertainties.

### Situation of Market Share in Japan (Magazine for Used-Car Information)



\* Competitors' magazine: Car Sensor (Mj Magazine in Shikoku, Crossroad in Okinawa)

\* Major cities in each area were targeted to obtain the numerical values.

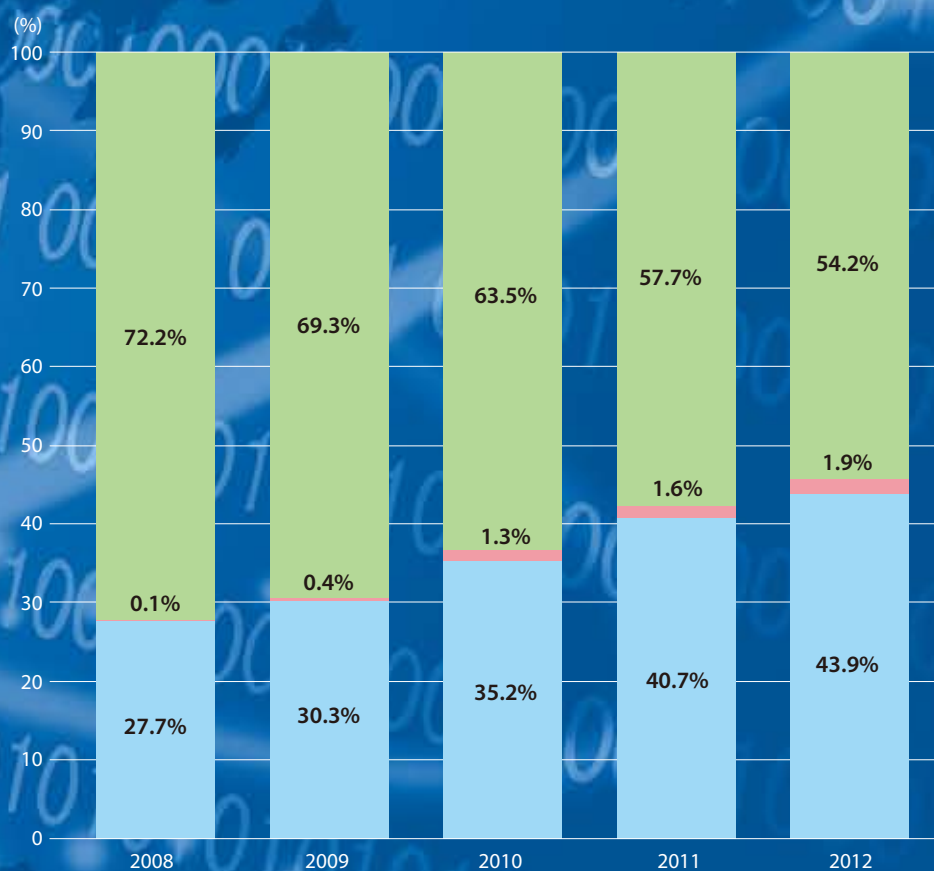
\* Method for counting client companies: To count the number of dealers that inserted their ads into information magazines. Surveyed by our Company in March 2012.





# EXPANDING AND GROWING IT BUSINESS

### Variation in the Ratio of Sales in the Automobile-related Information Business



\*Years ended March 31

IT Business Magazine Business Other Business

# Consolidated Financial Highlights

Years ended March 31

	2008	2009	2010	2011	2012
(Millions of yen)					
<b>Financial Highlights</b>					
<b>For the Year</b>					
Net Sales	22,893	23,657	25,682	28,779	30,582
Operating Income	3,771	5,384	6,098	6,111	5,846
Ordinary Income	3,837	5,400	6,165	6,375	6,002
Net Income	1,838	3,187	3,529	3,197	3,275
Cash Flows from Operating Activities	2,321	3,750	4,005	3,896	3,556
Cash Flows from Investing Activities	(474)	(2,949)	(1,141)	(1,625)	(3,606)
Cash Flows from Financing Activities	(437)	(624)	(773)	(996)	(907)
Net Increase in Cash and Cash Equivalents	1,415	121	2,100	1,269	(952)
Cash and Cash Equivalents, End of Year	8,985	9,107	11,207	12,476	11,524
<b>At Year-end</b>					
Total Assets	19,023	21,608	24,223	26,163	28,585
Net Assets	12,434	14,865	17,700	20,034	22,569
Common Stock	1,824	1,824	1,824	1,824	1,824
Shares Outstanding at Year-end (Thousands)	10,470	10,470	10,470	10,470	10,470
Number of Employees (persons)	685	716	798	875	954

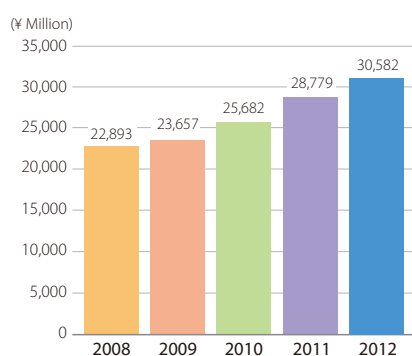
	2008	2009	2010	2011	2012
(Yen)					
<b>Per Share Data</b>					
Net Income	175.69	304.67	337.43	305.71	313.17
Net Assets	1,176.24	1,413.52	1,683.60	1,915.33	2,157.72
Annual Cash Dividends	50.00	70.00	70.00	75.00	85.00

	2008	2009	2010	2011	2012
<b>Financial Indicators</b>					
Operating Income Ratio	16.5%	22.8%	23.7%	21.2%	19.1%
Return on Equity (ROE) *1	15.8%	23.5%	21.8%	17.0%	15.4%
Return on Assets (ROA) *2	20.8%	26.6%	26.9%	25.3%	21.9%
Equity Ratio	64.7%	68.4%	72.7%	76.6%	79.0%
Payout Ratio	28.5%	23.0%	20.7%	24.5%	27.1%

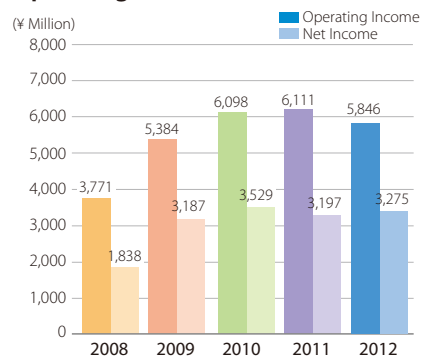
\*1 ROE: Net Income/Equity

\*2 ROA: Ordinary Income/Total Assets

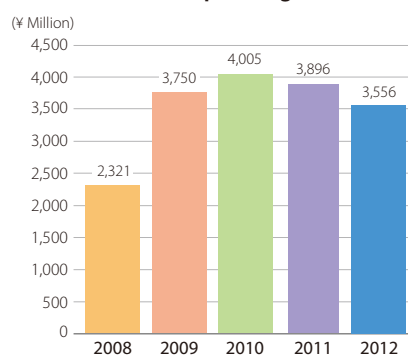
## Net Sales



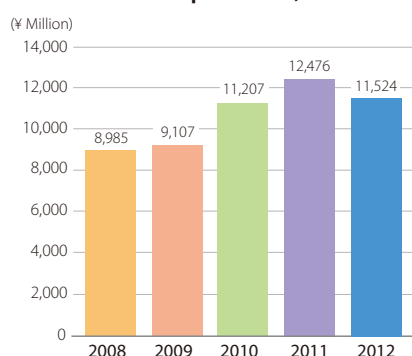
## Operating Income / Net Income



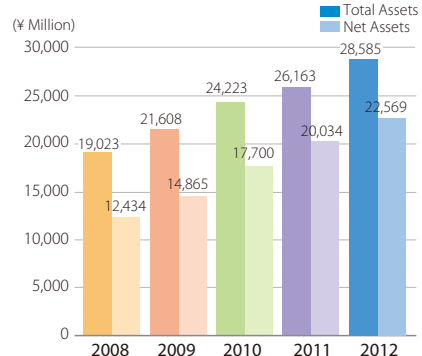
## Cash Flows from Operating Activities



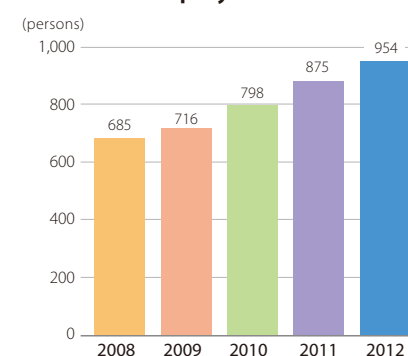
## Cash and Cash Equivalents, End of Year



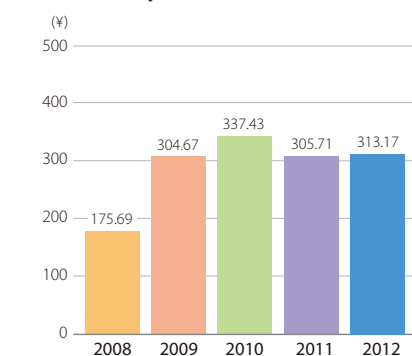
## Total Assets / Net Assets



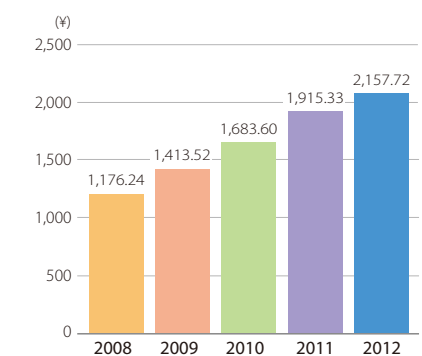
## Number of Employees



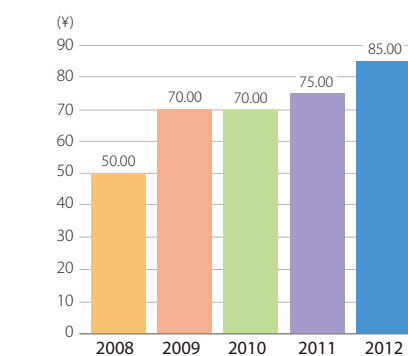
## Net Income per Share



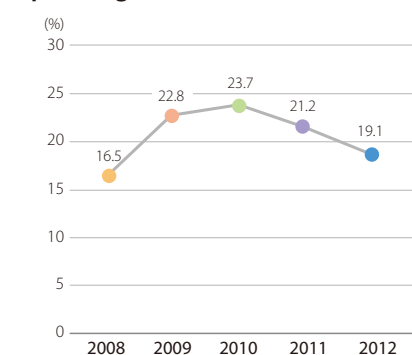
## Net Assets Per Share



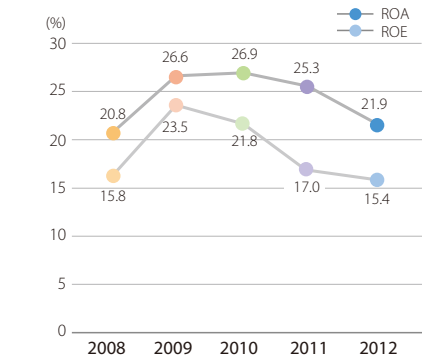
## Annual Cash Dividends per Share



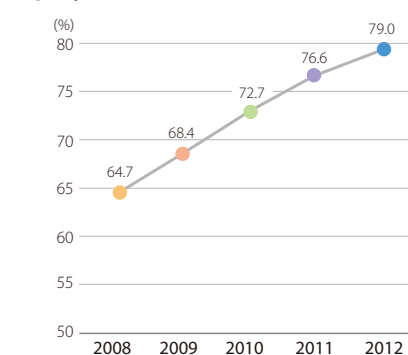
## Operating Income Ratio



## ROE\*1 / ROA\*2



## Equity Ratio



\*1 ROE: Net Income/Equity

\*2 ROA: Ordinary Income/Total Assets

# Message from the President and COO

The PROTO Group considers the growth potentials of sales and operating income as important management indices. We also use return on equity (ROE) and return on assets (ROA) as important management indices for gauging profitability and efficiency, and aim to improve these indices on a medium- to long-term basis.

## Overview of business performance

In the year ended March 31, 2012, the business environment surrounding the PROTO Group was stringent, as the global economic outlook was unclear and there were various adverse events caused by natural disasters, such as the Great East Japan Earthquake and the flood in Thailand.

In this operating environment, the PROTO Group has made efforts to expand its business scale by offering comprehensive business support services ranging from procurement to sales to its clients, including used car dealers and repair shops. We also expanded our business scale for our peripheral services, including the e-commerce of motorbike parts and the used car export support business. As a result, the consolidated sales for the year ended March 2012 were 30.5 billion yen, increasing 6.3% from the previous year. On the other hand, we enhanced the promotion for improving our media power in the Japanese market to expand our business scale further, and carried out active research for making inroads into overseas markets. Consequently, operating income was 5.8 billion yen, decreasing 4.3% from the previous year.

The PROTO Group will conduct its businesses actively

in the Japanese and overseas markets, to increase profits as soon as possible.

## Regarding the profit sharing with shareholders

One of the important missions of our business administration is to return profits to our shareholders as well as to fortify our management base. Accordingly, our basic policy is to try to share profits with our shareholders, while emphasizing continuous stable dividends and considering comprehensively the enrichment of retained earnings, etc., for future growth.

We plan to effectively invest retained earnings in our existing and new businesses, and M&A in order to further fortify our business base and expand our business scale.

As for the distribution of surplus money for the year ended March 2012, we set interim and term-end dividends each at 42.5 yen per share (ordinary dividend: 37.5 yen + dividend for commemorating the 10th anniversary of listing: 5 yen), that is, amounting to an annual dividend at 85 yen, to commemorate the 10th anniversary of listing.

## Future growth strategies

In 2012, we will commemorate the 35th anniversary of the inauguration of our business.

Since we started our businesses, we have challenged and changed while offering information services consistently, to continue to be needed by society.

Since 2010, we have aimed to become a "global company." To attain this goal, we will expand our business



scale inside Japan, and actively conduct global businesses especially in East Asia and Southeast Asia.

In the Japanese market, we will improve user-friendliness and assist our major clients, including used car dealers, in business administration, by strengthening the provision of products and services from the viewpoints of users and clients. As a result, we will win outstanding support from users and energize our business fields. This is indispensable to achieve the sustainable growth of the PROTO Group

As for our challenges in the global markets, we reorganized MTM Multimedia Sdn. Bhd. (presently: PROTO MALAYSIA Sdn. Bhd.) into a subsidiary in September 2011, and established PROTO (TAIWAN) CO., LTD. in December 2011 and PROTO SINGAPORE Pte. Ltd. in May 2012. From now on, we will promote our businesses in the global markets, mainly in East Asia and Southeast Asia, by utilizing the know-how we have nurtured effectively.

The Company will keep challenging and changing, in order to be needed by society for the next 100 years.

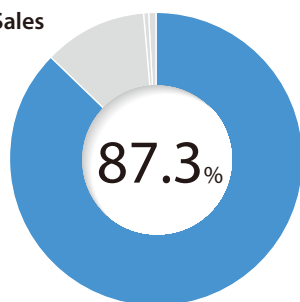
We sincerely hope that shareholders and investors will keep understanding and supporting the business operations of PROTO CORPORATION for a long time.

  
Tatsuzo Irikawa  
President and COO

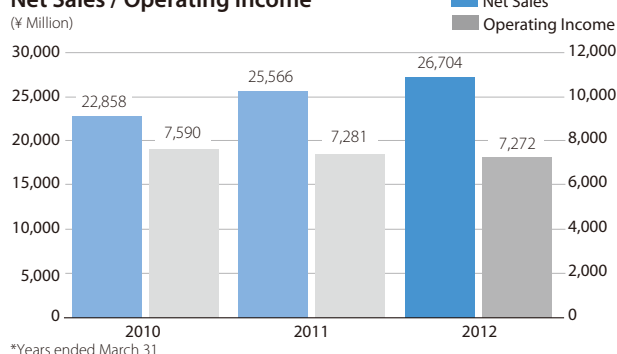


## Automobile-related Information

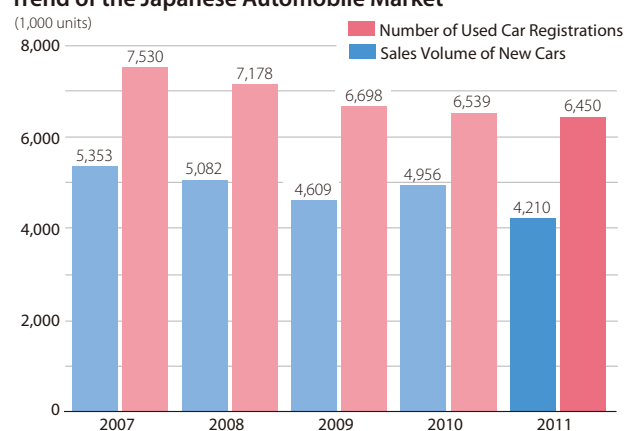
Share of Net Sales



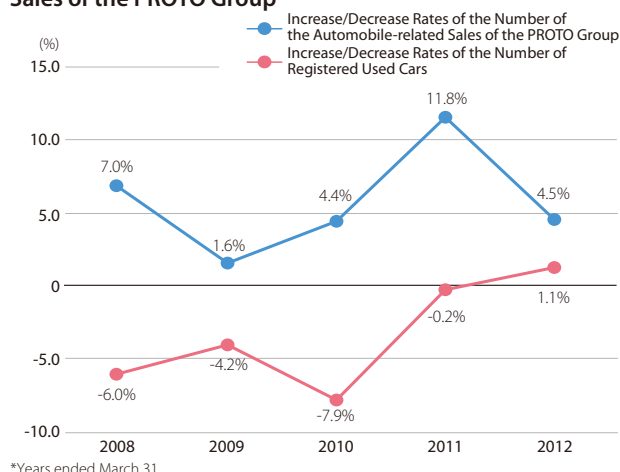
Net Sales / Operating Income



Trend of the Japanese Automobile Market



Increase/Decrease Rates of the Number of Registered Used Cars in Japan and the Automobile-related Sales of the PROTO Group



The Company gleans the information on inventory in each used car dealer throughout Japan, organizes and classifies such information, produces a database, and then distributes useful contents to consumers via the media, such as the Internet, mobile devices, and information magazines.

As services targeted at business corporations, such as automobile manufacturers and used car dealers, we provide them with useful information for the distribution of used cars, including information on the successful bidding prices at automobile auction sites nationwide and the standard prices of used cars set by the Company. Furthermore, we offer business support services for effective and efficient procurement and sale, including the C-to-B used car purchase service, with which used car dealers bid for automobiles owned by consumers, the used car export support service, and the "Goo Inspection" service for disclosing the information on the quality of used cars to consumers.

The sales volume of new cars and the number of registered used cars in Japan are decreasing gently, as the car holding period is getting longer.

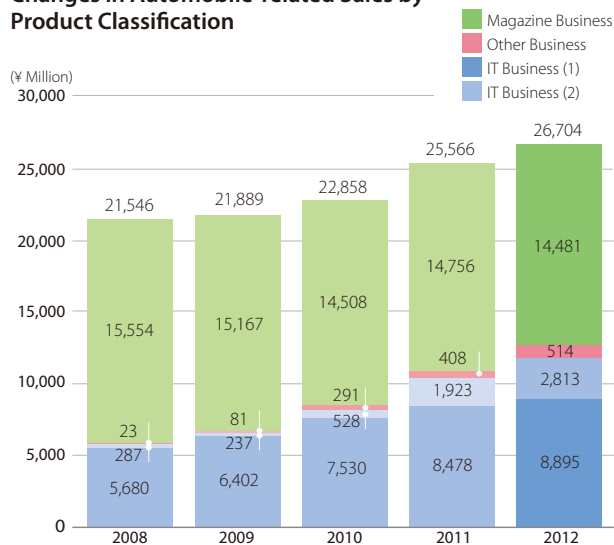
In 2010, the sales volume of new cars increased, due to Japan's eco-car subsidy, which was terminated in September 2010. In 2011, the sales volume decreased in reaction to the termination of the eco-car subsidy system.

In 2012, the sales volume of new cars and the number of registered used cars increased from the previous year, as the eco-car subsidy was resumed in December 2011.

Over the past five years, the number of registered used cars in Japan has been decreasing. Nevertheless, the PROTO Group has increased sales in the gently shrinking market.

Note: In the year ended March 31, 2011, the increase rate of sales increased as sales increased when BikeBros became a subsidiary.

## Changes in Automobile-related Sales by Product Classification



\*Years ended March 31

We provided our major clients with comprehensive business support services, expanded our business scale, and improved our peripheral services, including the e-commerce of motorbike parts and the used car export support service. As a result, the sales of the automobile-related information business for the year ended March 2012 were 26,704 million yen, indicating a 4.5% increase from the same period of the previous year.

We also witnessed an increase in the ratio of the sales of the profitable IT business\*<sup>1</sup>, including the IT services of the Goo Series (Quotation/Inquiry Service, QE, GCS, etc.) and the software for maintenance, sheet-metal work, and coating. For the year ended March 2012, the ratio reached 33.3%. We will attempt to keep expanding profits, by increasing the ratio of the sales of such profitable businesses.

## Core Products and Services of Automobile-related Information Business

### Magazine Business

Basic advertising fees (Package of information magazines, PCs, and mobile devices)

### Other Business

Goo Inspection etc.

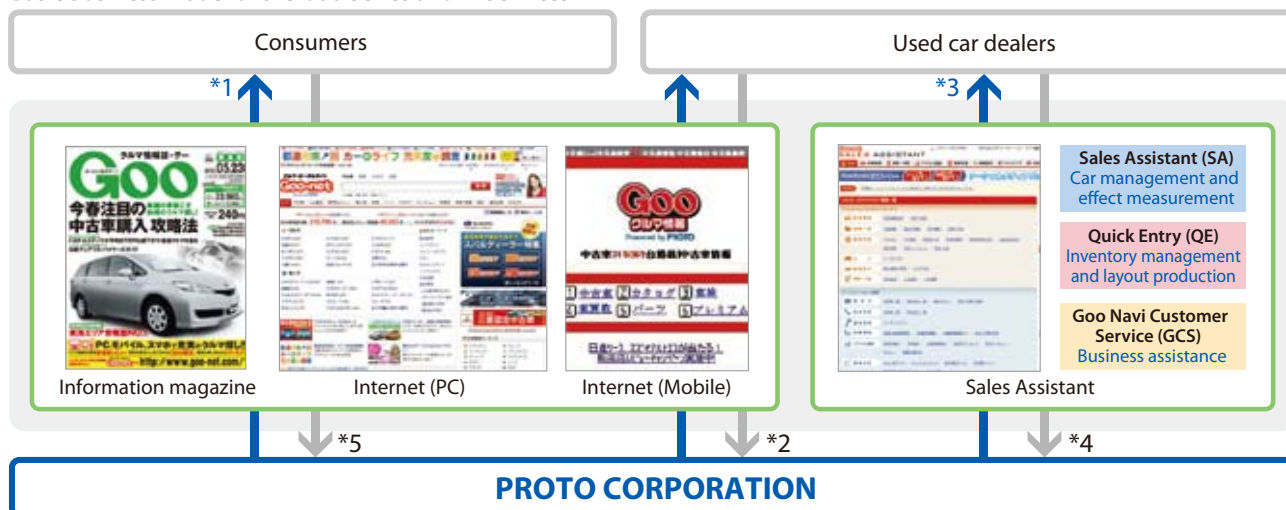
### IT Business (1)

Option products, such as Goo-net, B to B data service etc.

### IT Business (2)

EC, Service of supporting the export of used cars etc.

## Basic Business Model of the Goo Series and IT Services



The Goo Series, which is our core business, provides consumers with the inventory information of used car dealers, which are our major clients, via a variety of media, such as the Internet, mobile devices, and information magazines.\*<sup>1</sup>

The Company sells the packaged ad spaces for PCs, mobile devices, and information magazines to used car dealers, and receives basic ad fees from them. Ad fees are charged based on the price per page of information magazines according to the number of pages.\*<sup>2</sup>

The customers of the Goo Series can use a broad range of services through "Sales Assistant," which is the background system of Goo-net.\*<sup>3</sup> In detail, it is mounted with the function to promote the interaction with users, and offers some monthly charged IT services according to the needs of used car dealers, such as the inventory management system, the customer management system, and the browsing of the information on used car prices.\*<sup>4</sup> The number of users of the services provided through "Sales Assistant" is increasing year by year. Users are charged for their subscriptions to information magazines and some websites for mobile devices.\*<sup>5</sup>

# Business Overview

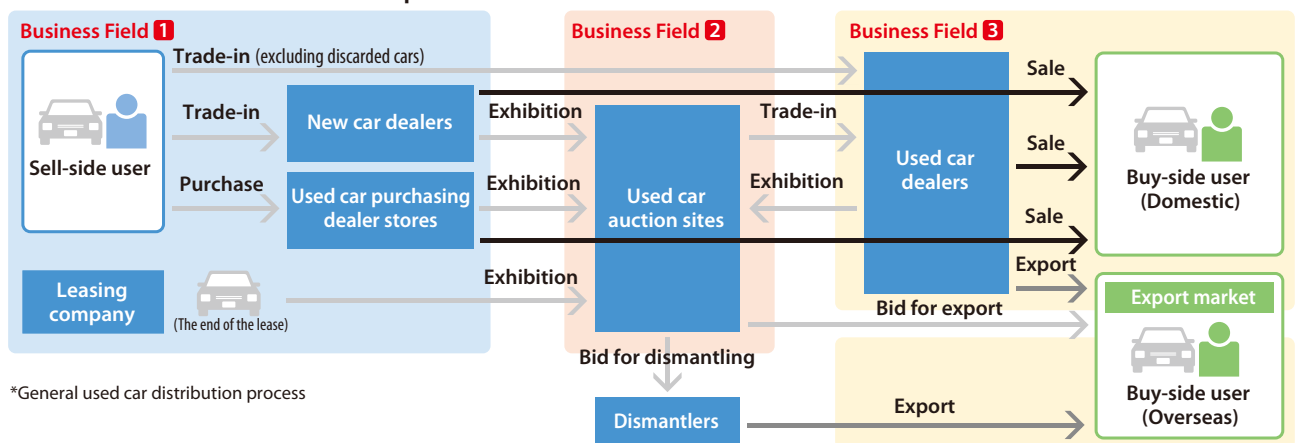
## Growth Strategies of the Automobile-related Information Business

As of the end of March 2012, our market share with respect to the number of client used car dealers was 55.8%. Inside Japan, we will make efforts to increase our market share further, and enhance the provision of products and services for grading used cars and supporting the export of used cars as well as the advertisements of used cars, to comprehensively assist our clients, including used car dealers, in business administration.

On a medium- to long-term basis, we will develop a common platform for the entire automobile field, in order to appropriately and efficiently deal with the needs of users and clients, including new car dealers, automobile manufacturers, repair shops, sheet-metal and coating plants, and increase the number of customers.

Outside Japan, we will apply the know-how of the Goo Series to overseas used car markets and promote business expansion in East Asia and Southeast Asia, where used car markets are expected to grow continuously.

## Used Car Distribution Process in Japan



## FAQ

### Q. Why didn't the trading among individuals become popular in the Japan used car market?

**A.** The trading of used cars among individuals was not popularized in Japan compared with other countries, because it is bothersome to obtain a license plate, complete the procedures for changing the ownership of the car, and conduct tax-related formalities in Japan. However, there is a possibility that the trading among individuals will become popular, and so we plan to discuss the services for the trading among individuals.

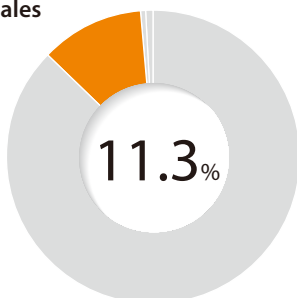
### Q. What are the strengths of PROTO CORPORATION?

**A.** One of our strengths is the outstanding media power based on "Goo-net," which is a portal site for automobile information with the largest number of registered used cars in Japan, and "Goo," which is an automobile information magazine with the largest circulation in Japan. In addition, we have strengths in ad posting, the comprehensive business support service for upstream to downstream businesses in the used car distribution market, the system for assisting clients through nationwide direct sale, and the capacity to develop IT services for meeting clients' needs swiftly.

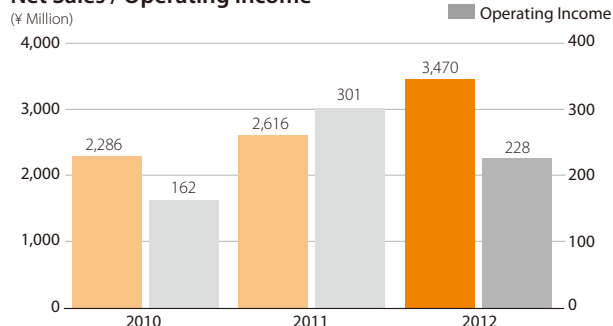


## Lifestyle-related Information

Share of Net Sales



Net Sales / Operating Income



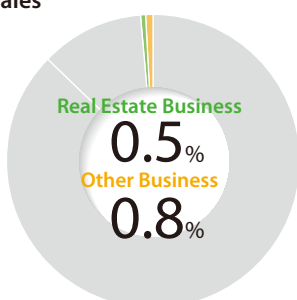
\*Years ended March 31

For the lifestyle-related information business, we promote the expansion of business scale by applying our business model based on ad posting through the Internet and mobile devices, etc. and the provision of business support services, like the automobile-related information business, which is our core business.

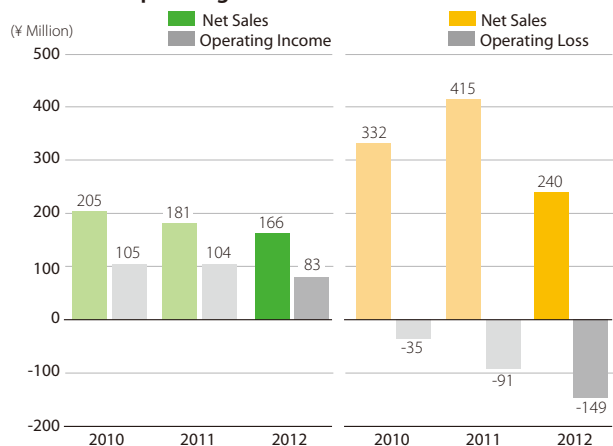
Especially in the fields of medical care, nursing care, and welfare, PROTO MEDICAL CARE distributes the information on charged nursing homes and houses for seniors and the services related to the job opportunity information in the fields of medical care, nursing care, and welfare, etc. We also handle the information in the fields of culture, reuse, and leisure. The sales in the lifestyle-related field were 3,470 million yen, increasing 32.6% from the same period of the previous year.

## Real Estate Business / Other Business

Share of Net Sales



Net Sales / Operating Income



\*Years ended March 31

### Real Estate Business

The Company and PROTO-RIOS INC. conduct the real estate management business mainly for preserving and managing our own assets.

The sales in this field were 166 million yen, decreasing 8.1% from the same period of the previous year.

### Other Business

PROTO DATA CENTER conducts the business process outsourcing (BPO) business.

The sales in this field were 240 million yen, decreasing 42.1% from the same period of the previous year. This is mainly because MARS FLAG Corporation was excluded from consolidation in the year ended March 2011.

## Overview of Corporate Governance Systems

In addition to enhancing corporate value by ensuring consistent and stable profits and further expansion of the Group's businesses, the purpose of corporate governance is to engage in highly transparent and sound management that earns the trust of society. We at PROTO believe that managing our business while taking constant care to maximize profits for shareholders, clients, employees, and all other stakeholders helps enhance our value as a member of society. We will continue working hard to establish a highly transparent and sound management system by implementing thorough compliance (observance of laws and regulations), reinforcing monitoring functions, and disclosing information in a timely, appropriate, and fair manner.

With this basic attitude toward corporate governance, we aim to monitor and audit the state of compliance with laws and the Articles of Incorporation laws in the execution of duties by directors, as well as one standing auditor; we have also appointed two external auditors in order to ensure independence in audits. Furthermore, we have designated the two external auditors as independent board members, thereby ensuring objectivity and neutrality in management oversight and audit functions. Directors have the authority to execute business affairs under their control, and are also in charge of monitoring the actions of other directors and matters raised at Board of Directors meetings. Under an executive officer system we have introduced, executive officers responsible for a particular division are given the same authority as that given to directors. These executive officers report to the Board of Directors as appropriate on their respective responsibilities.

As we believe that we have put in place a system that is sufficient for management oversight and audit functions, as can be seen above, we are not planning to appoint any external directors at the present time.

### 1. Board of Directors

As the Company's decision-making body, the Board of Directors is currently comprised of 11 full-time directors, and in addition to regular meetings that are held each month, we also hold special Board of Directors meetings as necessary where we discuss and decide on agenda items stipulated in the "Provisions for Board of Directors Meeting".

In order to keep the number of the Company's board members at 20 or below, and to further clarify people's

responsibilities as board members, we stipulate in the Articles of Incorporation that the term of office for board members shall be up until the completion of the Annual General Meeting of Shareholders during the business year that finishes within one year following their appointment.

### 2. Board of Corporate Auditors

We have introduced an auditor system, and with our framework that includes one standing auditor and two external auditors, we are now strengthening management oversight and auditing systems conducted by our Board of Corporate Auditors.

The Company's corporate auditors share information at monthly Board of Corporate Auditors meetings.

The Company's corporate auditors and accounting auditor share information at reporting sessions held every quarter. At these meetings, auditors present reports and exchange ideas on the audit system, audit plans, and the implementation of auditing.

### 3. Accounting Auditor

We have appointed KPMG AZSA LLC as our accounting auditor, and have signed an audit contract. We provide accounting auditors with accurate management information, and have created an environment in which auditing can be performed from a fair and unbiased position. KPMG AZSA LLC has been employed as our accounting auditor since the year ended March 2008.

## Internal Control System and Financial Reports

PROTO has established an Internal Audit Office that is directly controlled by the Company president, and strives toward strengthening internal control. The Office maintains the standards required under Japan's Financial Instruments and Exchange Law. It does this through appropriate "evaluation to ensure the appropriateness of documents and other information related to financial accounts" as prescribed in Article 24, Paragraph 4, Item 4 of the Law.

### Internal Audits and Corporate Auditors' Audits

The main duties of the Internal Audit Office are to check in-house regulations and business practices and audit the management and maintenance of accounts in line with the audit plan formulated at the beginning of each financial year. An employee from the Internal Audit Office does this by visiting the Company's branches, sales

offices, and subsidiaries nationwide. When matters requiring attention are identified in the course of this auditing process, the auditor specifies the necessary improvements and follows up the result at a later date to ensure that such improvements are made. Coordination between corporate auditors and the independent accounting auditor allows for the implementation of audits. He reports the results of these audits to the president on a regular basis.

Corporate auditors monitor directors' execution of duties and the establishment and operation of the Company's internal control system by attending Board of Directors meetings, reading documents, and talking with relevant parties. Auditors oversee business reports, financial reports, appended statements, and other measures submitted at the Annual General Meeting of Shareholders based on the findings of the auditing firm responsible for financial audits held at the end of each financial year. They also submit audit reports to the Company president.

Regarding the state of cooperation between auditors and the Internal Audit Office, they exchange views and confirm the immediate situation with each other. Also, when visiting branch offices, sales offices, and subsidiaries throughout the country to perform business audits, as per the audit plans initially drawn up by the Internal Audit Office, auditors accompany them to major locations, and audit the maintenance and operational status over the Company's internal control.

### External Directors and External Auditors

We do not appoint external directors. With the Board of Directors, which has capabilities for making decisions on management, and for managing and auditing operations by board members and executives officers by making two of the three auditors external auditors, we have enhanced our capabilities for monitoring and auditing functions.

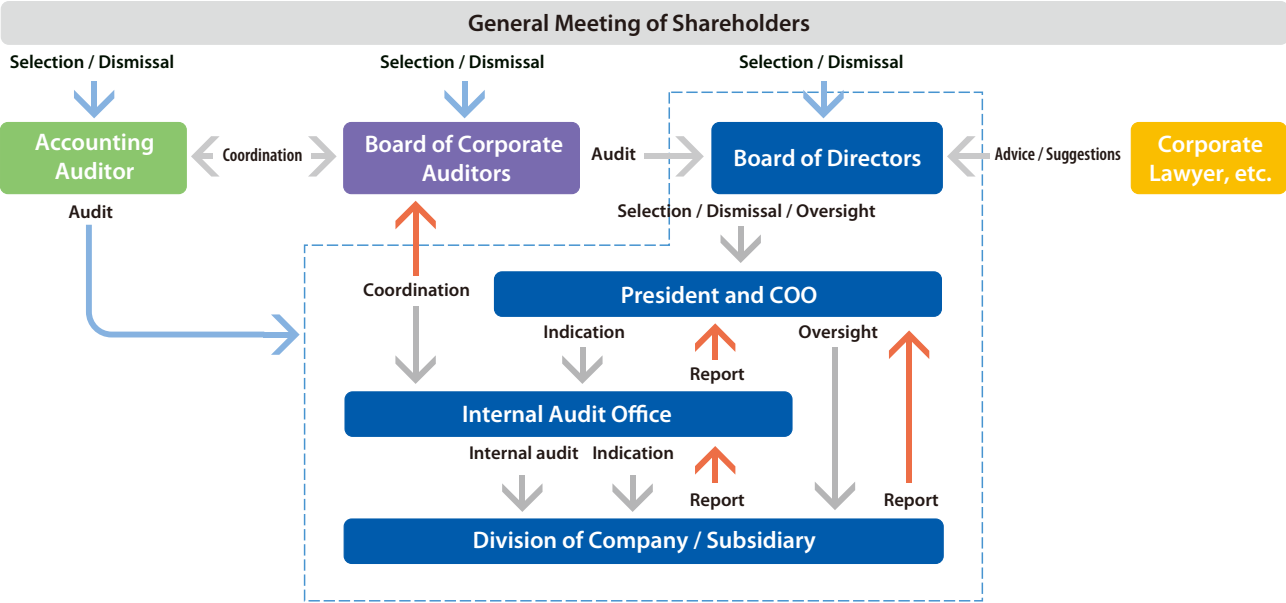
Regarding the appointment of external auditors, we select personnel with previous experience in similar positions, plenty of experience, and broad knowledge.

Also, by specifying two of the external auditors as independent board members, we ensure objectivity and neutrality in management oversight and auditing functions. In our relationship with external auditors, there is no relationship of vested interest in terms of personnel, capital, trading, or any other matter.

Furthermore, through the cooperation of external auditors and our Internal Audit Office, whereby they jointly exchange views and confirm the immediate situation with each other, we promote information sharing.

At PROTO, with regard to corporate governance, we consider objective and neutral management oversight and auditing functions from outside the Company to be of vital importance. Since we have a system in place that can adequately function to provide management oversight and auditing, through our use of two external auditors who perform audits, we are maintaining this as our current system.

### Corporate Governance System Chart



# Corporate Social Responsibility (CSR) Initiatives

## Support Activities Concerning the Great East Japan Earthquake

In order to support the reconstruction of the disaster area at the earliest possible date, PROTO is engaged in the following efforts.

- PROTO contributed relief funds through the Japanese Red Cross.
- PROTO changed some products for shareholders (catalog gifts available for selection), and made it possible to select a donation of relief funds through the Japanese Red Cross.
- We plan and sponsor the used car fairs in devastated areas, to support the recovery of users and clients.

## Initiatives Targeting Stakeholders

### Improving the Employment Environment

#### 1. Creating work-life balance for employees raising children

- For female workers who are pregnant or have recently given birth, we have set up consultation services on our Company intranet to assist in ensuring their health, and have also responded swiftly to legal revisions, and are working to keep everyone informed of these services.
- When workers or their partners give birth to children, as well as mothers, we also encourage fathers to take leave.
- Through our Company intranet, we regularly inform employees of systems for next-generation development, including child-care leave and maternity leave.

#### 2. Reviewing working styles and developing diverse working conditions

- With the aim of reducing monthly overtime working hours by 10% Company-wide, we are reviewing our action plans in each department, in order to increase operational efficiency.
- With the aim of increasing our annual rate of paid leave by 10% Company-wide, we are working to boost our acquisition rate through measures such as incorporating paid leave into business plans.

### Measures to Support the Development of the Next Generation

Through our continuance and promotion of trial employment, whereby we employ workers who are introduced to us through Hello Work (Japan's national employment agency) on a short-term, trial basis, we promote vocational training of workers.

### Compliance System

PROTO strives to promote and maintain proper behavioral standards among its employees through its Corporate Charter, which was established as a code of conduct in 2006. Each division and department establishes, maintains, and improves its own internal control system while also formulating rules and guidelines and implementing training.

The Company has formulated compliance regulations to ensure observance with laws, regulations, and the Company's Articles of Incorporation. We have a reporting system with its own provisions that can be used when any employee discovers

conduct that is in violation of any laws, regulations, or Articles of Incorporation. Efforts to ensure that employees are familiar with the system include the establishment of an internal reporting liaison service.

The Company is also establishing a system that reports the details and proposed solution without delay to top management, the Board of Directors, and Auditors in the event of a problem concerning compliance.

### Corporate Charter

PROTO CORPORATION and its Group companies engage in corporate activities based on rules of law, business practice, and social ethics, within a competitive market. From July 20, 2006, all board members, auditors, and employees working at PROTO CORPORATION will strive to achieve our social mission, while engaging in corporate activities in compliance with all legal regulations, with the aim of "contributing to society" as outlined in our management principles. To this end, we shall formulate the "PROTO Group Corporate Charter," and shall increase our corporate value by carrying out business activities in accordance with this charter.

#### 1. Legal Compliance

In performing business operations, we correctly understand and comply with all relevant laws, as well as the spirit of these laws. We will take every possible measure to prevent fraudulent activity.

#### 2. Contribution to Society

We will strive to contribute to society, through the products and services that we provide. As a good corporate citizen, we will contribute broadly to society by voluntarily and actively developing corporate activities aimed at maintaining and developing a rich and healthy society.

#### 3. Corporate Management

We will engage in fair, transparent, and free competition, as well as fair trade. We will also maintain healthy and normal relationships with political and government organizations.

#### 4. Disclosure of Information

We will at all times maintain communication with shareholders and society at large, and will disclose corporate information actively and fairly.

#### 5. Workplace Environment

As well as respecting diversity, personality, and individuality among employees, we will also ensure a safe working environment, providing comfort and prosperity.

#### 6. Environmental Protection

We recognize efforts addressing environmental problems as being a common issue for all humanity and essential to corporate activity and existence. We will voluntarily and actively engage in actions aimed at "sustainable development."

#### 7. Elimination of Antisocial Forces

We hold a resolute stance against antisocial forces that pose threats toward safety and order in civil society. By strengthening our cooperation with industry organizations and the police, we will work toward eliminating such groups.



# Financial Section

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## Consolidated Balance Sheet

As of March 31

(Thousands of yen)

	2010	2011	2012
<b>&lt;Assets&gt;</b>			
<b>Current Assets</b>			
Cash	11,275,189	12,748,091	11,734,088
Notes and accounts receivable	2,456,728	2,654,846	3,078,917
Short-term investment securities	—	19,076	—
Goods and merchandise	17,078	27,328	92,030
Goods in process	55,931	61,211	81,276
Raw material and inventory goods	3,318	2,642	21,122
Deferred tax assets	162,512	217,143	218,144
Other current assets	216,252	334,814	644,750
Allowance for doubtful accounts	(2,709)	(3,779)	(14,911)
<b>Total Current Assets</b>	<b>14,184,301</b>	<b>16,061,374</b>	<b>15,855,418</b>
<b>Fixed Assets</b>			
<b>Tangible Fixed Assets</b>			
Buildings and structures	3,160,598	2,966,919	2,999,015
Land	3,900,031	3,998,869	4,021,355
Other tangible fixed assets	73,599	120,326	184,061
<b>Total Tangible Fixed Assets</b>	<b>7,134,229</b>	<b>7,086,115</b>	<b>7,204,432</b>
<b>Intangible Fixed Assets</b>			
Goodwill	658,944	954,252	3,160,304
Other intangible fixed assets	211,667	154,887	483,288
<b>Total Intangible Fixed Assets</b>	<b>870,612</b>	<b>1,109,140</b>	<b>3,643,593</b>
<b>Investments and Other Assets</b>			
Investments in securities	555,969	499,156	623,758
Deferred tax assets	508,417	599,783	435,837
Other investments	1,061,657	900,979	882,217
Allowance for doubtful accounts	(92,037)	(93,035)	(60,104)
<b>Total Investments and Other Assets</b>	<b>2,034,007</b>	<b>1,906,884</b>	<b>1,881,707</b>
<b>Total Fixed Assets</b>	<b>10,038,849</b>	<b>10,102,139</b>	<b>12,729,733</b>
<b>Total Assets</b>	<b>24,223,151</b>	<b>26,163,513</b>	<b>28,585,152</b>
<b>&lt;Liabilities&gt;</b>			
<b>Current Liabilities</b>			
Notes and accounts payable – trade	755,423	776,034	896,845
Current portion of long-term borrowings	59,027	82,821	48,594
Accrued expenses	1,151,576	1,251,505	1,457,422
Accrued income taxes	1,466,687	1,333,671	991,976
Advances received	1,902,090	1,741,097	1,656,574
Allowance for sales returns	51,607	95,545	105,090
Allowance for bonus payable	44,075	41,813	52,217
Provision for repayment	—	—	2,768
Other current liabilities	432,043	316,622	362,086
<b>Total Current Liabilities</b>	<b>5,862,531</b>	<b>5,639,110</b>	<b>5,573,575</b>
<b>Long-term Liabilities</b>			
Long-term borrowings	101,964	53,954	5,840
Allowance for employees' retirement benefits	491	882	—
Allowance for directors' retirement benefits	212,900	232,300	246,050
Asset retirement obligation	—	73,268	74,002
Negative goodwill	31,691	21,917	12,143
Other long-term liabilities	312,796	107,573	103,805
<b>Total Long-term Liabilities</b>	<b>659,843</b>	<b>489,895</b>	<b>441,842</b>
<b>Total Liabilities</b>	<b>6,522,374</b>	<b>6,129,006</b>	<b>6,015,418</b>
<b>&lt;Net Assets&gt;</b>			
<b>Shareholders' Equity</b>			
Common stock	1,824,620	1,824,620	1,824,620
Capital surplus	2,011,736	2,011,736	2,011,736
Retained earnings	13,796,905	16,236,318	18,675,287
Treasury stock	(12,916)	(13,598)	(13,806)
<b>Total Shareholders' Equity</b>	<b>17,620,346</b>	<b>20,059,077</b>	<b>22,497,837</b>
<b>Accumulated Other Comprehensive Income/(Loss)</b>			
Unrealized losses on other securities, net of tax	(5,573)	(12,252)	74,252
Foreign exchange adjustment account	(3,843)	(12,317)	(2,357)
<b>Total accumulated other comprehensive income/(loss)</b>	<b>(9,416)</b>	<b>(24,570)</b>	<b>71,895</b>
<b>Minority Interests</b>	<b>89,847</b>	<b>—</b>	<b>—</b>
<b>Total Net Assets</b>	<b>17,700,776</b>	<b>20,034,506</b>	<b>22,569,733</b>
<b>Total Liabilities and Net Assets</b>	<b>24,223,151</b>	<b>26,163,513</b>	<b>28,585,152</b>

## Consolidated Statements of Income

Years ended March 31

(Thousands of yen)

	2010	2011	2012
<b>Net Sales</b>	<b>25,682,321</b>	<b>28,779,831</b>	<b>30,582,216</b>
<b>Cost of Sales</b>	<b>10,272,804</b>	<b>11,810,257</b>	<b>13,294,104</b>
<b>Gross Profit</b>	<b>15,409,516</b>	<b>16,969,573</b>	<b>17,288,111</b>
Reversal of allowance for sales returns	51,357	193,712	113,765
Provision for allowance for sales returns	51,607	95,850	103,632
<b>Adjusted Gross Profit</b>	<b>15,409,266</b>	<b>17,067,435</b>	<b>17,298,244</b>
<b>Selling, General and Administrative Expenses</b>			
Salaries for directors and employees	4,236,619	4,670,603	4,681,775
Provision for allowance for directors' retirement benefits	18,300	19,400	18,900
Provision for allowance for bonus payable	28,550	30,421	38,012
Advertising	1,332,730	1,694,901	2,104,162
Provision for allowance for doubtful accounts	20,628	8,254	22,552
Amortization of goodwill	91,722	422,474	405,083
Others	3,582,115	4,109,923	4,180,869
<b>Total Selling, General and Administrative Expenses</b>	<b>9,310,666</b>	<b>10,955,979</b>	<b>11,451,356</b>
<b>Operating Income</b>	<b>6,098,600</b>	<b>6,111,455</b>	<b>5,846,888</b>
<b>Non-Operating Income</b>			
Interest income	13,545	15,908	20,236
Dividend received	5,235	5,254	7,109
Income from sales of used paper	12,712	20,633	31,821
Amortization of negative goodwill	9,773	9,773	9,773
Reversal of allowance for doubtful accounts	—	—	20,073
Other income	48,461	231,660	96,057
<b>Total Non-Operating Income</b>	<b>89,727</b>	<b>283,230</b>	<b>185,072</b>
<b>Non-Operating Expenses</b>			
Interest expenses of loans	2,034	6,289	2,224
Foreign exchange losses	—	—	2,738
Contribution	—	—	10,000
Other expenses	20,422	12,490	14,976
<b>Total Non-Operating Expenses</b>	<b>22,457</b>	<b>18,780</b>	<b>29,940</b>
<b>Ordinary Income</b>	<b>6,165,870</b>	<b>6,375,906</b>	<b>6,002,020</b>
<b>Extraordinary Income</b>			
Gains from sales of fixed assets	2,196	—	70
Gains from sales of securities	3,160	—	8,371
Gains from forgiveness of debt	—	6,106	—
<b>Total Extraordinary Income</b>	<b>5,356</b>	<b>6,106</b>	<b>8,441</b>
<b>Extraordinary Losses</b>			
Losses from sales of fixed assets	24	318	258
Losses from disposals of fixed assets	35,411	46,981	8,839
Impairment losses	—	367,337	230,822
Losses from write-down of securities	77,001	0	4,291
Losses from sales of securities	6,322	—	—
Losses from sales of shares in affiliates	—	7,397	—
Provision of allowance for doubtful accounts	50,649	—	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	53,517	—
One-time amortization of goodwill	—	242,119	80,373
Other expenses	3,743	10,032	19,666
<b>Total Extraordinary Losses</b>	<b>173,152</b>	<b>727,704</b>	<b>344,251</b>
<b>Income before Income Taxes</b>	<b>5,998,074</b>	<b>5,654,308</b>	<b>5,666,210</b>
<b>Income Taxes</b>	<b>2,495,609</b>	<b>2,575,038</b>	<b>2,272,075</b>
<b>Adjustment of Corporate Income Tax</b>	<b>(38,357)</b>	<b>(122,799)</b>	<b>118,360</b>
<b>Total Taxes</b>	<b>2,457,251</b>	<b>2,452,239</b>	<b>2,390,436</b>
<b>Net Income before Adjusting for the Losses of Minority Shareholders</b>	<b>—</b>	<b>3,202,069</b>	<b>3,275,774</b>
<b>Minority Interest in Earnings (Losses)</b>	<b>11,138</b>	<b>4,290</b>	<b>—</b>
<b>Net Income</b>	<b>3,529,683</b>	<b>3,197,778</b>	<b>3,275,774</b>

## Consolidated Statements of Comprehensive Income

Years ended March 31

(Thousands of yen)

	2010	2011	2012
<b>Net Income before Adjusting for the Losses of Minority Shareholders</b>	<b>—</b>	<b>3,202,069</b>	<b>3,275,774</b>
<b>Other Comprehensive Income</b>			
Valuation difference on available-for-sale securities	—	(6,678)	86,505
Foreign comprehensive income	—	(8,474)	9,960
Other comprehensive income	—	(15,153)	96,465
<b>Comprehensive Income</b>	<b>—</b>	<b>3,186,915</b>	<b>3,372,240</b>
<b>(Breakdown)</b>			
Comprehensive income concerning shareholders of the parent company	—	3,182,624	3,372,240
Comprehensive income concerning minority shareholders	—	4,290	—

## Consolidated Statements of Shareholders' Equity

(Thousands of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of March 31, 2010</b>	<b>1,824,620</b>	<b>2,011,736</b>	<b>13,796,905</b>	<b>(12,916)</b>	<b>17,620,346</b>
Increase (decrease) during the year					
Cash dividends	—	—	(758,365)	—	(758,365)
Net income	—	—	3,197,778	—	3,197,778
Acquisition of treasury stocks	—	—	—	(681)	(681)
Disposal of treasury stocks	—	—	—	—	—
Net change in items excluding shareholders' equity during the period	—	—	—	—	—
Total increase (decrease) during the year	—	—	2,439,412	(681)	2,438,730
<b>Balance as of March 31, 2011</b>	<b>1,824,620</b>	<b>2,011,736</b>	<b>16,236,318</b>	<b>(13,598)</b>	<b>20,059,077</b>

(Thousands of Yen)

	Accumulated other comprehensive income/(loss)			Minority interests	Total net assets
	Profit/loss on deferred valuation of other securities	Profit/loss on deferred exchange	Total accumulated other comprehensive income/(loss)		
<b>Balance as of March 31, 2010</b>	<b>(5,573)</b>	<b>(3,843)</b>	<b>(9,416)</b>	<b>89,847</b>	<b>17,700,776</b>
Increase (decrease) during the year					
Cash dividends	—	—	—	—	(758,365)
Net income	—	—	—	—	3,197,778
Acquisition of treasury stocks	—	—	—	—	(681)
Disposal of treasury stocks	—	—	—	—	—
Net change in items excluding shareholders' equity during the period	(6,678)	(8,474)	(15,153)	(89,847)	(105,000)
Total increase (decrease) during the year	(6,678)	(8,474)	(15,153)	(89,847)	2,333,730
<b>Balance as of March 31, 2011</b>	<b>(12,252)</b>	<b>(12,317)</b>	<b>(24,570)</b>	<b>—</b>	<b>20,034,506</b>

(Thousands of Yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of March 31, 2011</b>	<b>1,824,620</b>	<b>2,011,736</b>	<b>16,236,318</b>	<b>(13,598)</b>	<b>20,059,077</b>
Increase (decrease) during the year					
Cash dividends	—	—	(836,805)	—	(836,805)
Net income	—	—	3,275,774	—	3,275,774
Acquisition of treasury stocks	—	—	—	(208)	(208)
Disposal of treasury stocks	—	—	—	—	—
Net change in items excluding shareholders' equity during the period	—	—	—	—	—
Total increase (decrease) during the year	—	—	2,438,969	(208)	2,438,760
<b>Balance as of March 31, 2012</b>	<b>1,824,620</b>	<b>2,011,736</b>	<b>18,675,287</b>	<b>(13,806)</b>	<b>22,497,837</b>

(Thousands of Yen)

	Accumulated other comprehensive income/(loss)			Minority interests	Total net assets
	Profit/loss on deferred valuation of other securities	Profit/loss on deferred exchange	Total accumulated other comprehensive income/(loss)		
<b>Balance as of March 31, 2011</b>	<b>(12,252)</b>	<b>(12,317)</b>	<b>(24,570)</b>	<b>—</b>	<b>20,034,506</b>
Increase (decrease) during the year					
Cash dividends	—	—	—	—	(836,805)
Net income	—	—	—	—	3,275,774
Acquisition of treasury stocks	—	—	—	—	(208)
Disposal of treasury stocks	—	—	—	—	—
Net change in items excluding shareholders' equity during the period	86,505	9,960	96,465	—	96,465
Total increase (decrease) during the year	86,505	9,960	96,465	—	2,535,226
<b>Balance as of March 31, 2012</b>	<b>74,252</b>	<b>(2,357)</b>	<b>71,895</b>	<b>—</b>	<b>22,569,733</b>



## Consolidated Statements of Cash Flows

Years ended March 31

(Thousands of yen)

	2010	2011	2012
<b>Cash Flows from Operating Activities</b>			
Income before income taxes	5,998,074	5,654,308	5,666,210
Depreciation	299,744	322,563	288,884
Impairment loss	—	367,337	230,822
Amortization of goodwill	91,722	422,474	405,083
One-time amortization of goodwill	—	242,119	80,373
Amortization of negative goodwill	(9,773)	(9,773)	(9,773)
Increase (decrease) in reserve for directors' retirement allowances	18,300	19,400	13,750
Increase (decrease) in reserve for employees' retirement benefits	294	391	(822)
Increase (decrease) in reserve for bonuses	5,188	(14,262)	10,404
Increase (decrease) in allowance for sales returns	250	(97,861)	(7,812)
Increase (decrease) in allowance for doubtful accounts	58,771	(9,096)	(7,582)
Interest and dividend income	(18,780)	(21,162)	(27,345)
Interest expenses	2,034	6,289	2,224
Loss (gain) on investments in business associations	16,742	7,245	2,813
Loss (gain) on investments in anonymous associations	(25,650)	(186,005)	(2,101)
Loss (gain) on sales of investment securities	3,162	—	(8,371)
Loss (gain) on revaluation of investment securities	77,001	0	4,291
Loss (gain) on sales of shares in affiliated companies	—	7,397	—
Loss (gain) on sales/disposal of property and equipment	33,239	47,299	9,027
Loss on adjustment for the changes of accounting standard for asset retirement obligation	—	53,517	—
Decrease (increase) in trade receivables	35,528	232,814	(615,994)
Decrease (increase) in inventories	1,815	(7,269)	(103,247)
Increase (decrease) in accounts payable	(62,238)	(113,937)	90,571
Increase (decrease) in accrued expenses	(119,947)	(9,831)	176,332
Increase (decrease) in advances received	(223,019)	(160,173)	(86,033)
Increase (decrease) in accrued consumption taxes, etc.	138,870	(127,961)	16,575
Others	(45,388)	(43,121)	16,865
<b>Subtotal</b>	<b>6,275,941</b>	<b>6,582,700</b>	<b>6,145,086</b>
Interest and dividends received	18,336	21,162	26,664
Interest paid	(2,158)	(6,173)	(2,216)
Income taxes paid	(2,286,281)	(2,701,153)	(2,613,090)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>4,005,837</b>	<b>3,896,535</b>	<b>3,556,443</b>
<b>Cash Flows from Investing Activities</b>			
Decrease in time deposits	(370,305)	(210,000)	—
Increase in time deposits	450,000	—	60,255
Proceeds from sales of property and equipment	5,063	1,716	293
Acquisition of property and equipment	(535,059)	(438,601)	(359,715)
Acquisition of intangible fixed assets	(69,075)	(58,797)	(356,588)
Payment of long-term prepaid expenses	(11,577)	(12,269)	(22,473)
Addition to investment securities	(300,000)	—	14,723
Proceeds from sales of investment securities	90,817	—	—
Payment for acquisition of subsidiary's shares accompanying changes in scope of consolidation	(258,093)	(621,355)	(2,842,350)
Payment for sales of subsidiary's shares accompanying changes in scope of consolidation	—	(73,895)	—
Investment income received from business associations	30,157	19,952	16,219
Proceeds from anonymous associations	—	130,970	—
Payment for acquisition of business	(181,991)	(380,000)	(130,420)
Others	8,579	16,867	13,698
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(1,141,484)</b>	<b>(1,625,413)</b>	<b>(3,606,357)</b>
<b>Cash Flows from Financing Activities</b>			
Increase (decrease) from short-term borrowings	(7,500)	—	—
Proceeds from long-term borrowings	—	50,000	—
Payment for repaying of long-term borrowings	(32,341)	(286,642)	(82,341)
Acquisition of treasury stock	(1,241)	(681)	(208)
Proceeds from disposal of treasury stock	216	—	—
Dividends paid	(732,263)	(759,119)	(824,965)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(773,129)</b>	<b>(996,443)</b>	<b>(907,514)</b>
<b>Translation Gain (Loss) Related to Cash and Cash Equivalents</b>	<b>8,799</b>	<b>(5,541)</b>	<b>4,890</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>2,100,022</b>	<b>1,269,137</b>	<b>(952,537)</b>
<b>Cash and Cash Equivalents at Beginning of Term</b>	<b>9,107,401</b>	<b>11,207,424</b>	<b>12,476,561</b>
<b>Cash and Cash Equivalents at End of Term</b>	<b>11,207,424</b>	<b>12,476,561</b>	<b>11,524,023</b>

# Analysis of Operating Results and Financial Position

## Analysis of Operating Results

### Outline

In the automobile industry, the main clients of the PROTO Group, had been on year-on-year downward trends until September due to the stagnation of domestic production caused by the Great East Japan Earthquake. Since October, however, the industry has experienced recovery thanks to the reintroduction of the eco-car subsidies. The number of registered used cars has been also on upward trends since October.

In this context, the PROTO Group pursued “the maximization of corporate value” through the maintenance of business growth, placing the establishment of corporate and product brands as a management strategic priority, fortifying the automobile-related information business, and expanding the lifestyle-related information business. More specifically, the Group strived to gain an increased share in the Japanese market through the development and offering of products and services tailored to customers’ needs and their consumption behavior and tried to further strengthen its product brands, such as “Goo,” as well as the corporate brand themed on “Leveraging Information for the Future.”

Incidentally, the PROTO Group suffered only minimal damage from the Great East Japan Earthquake, but some of our customers in the Tohoku region extensive suffered damage from the disasters. With this, the Group engaged in reconstruction assistance by making a disaster-relief donation through the Japanese Red Cross Society and hosting or co-hosting used-car sales events at disaster hit zones.

Also, pertaining to the automobile-related information business, the Group acquired 100% ownership of MTM Multimedia Sdn. Bhd. (presently, PROTO MALAYSIA Sdn. Bhd.), the number-one used-car information company in Malaysia, in September 2011 and pursued the globalization of its main business. As for the lifestyle-related information business, the Group acquired the elderly care magazine business (the “Heart Page Magazine”) in June 2011 and a social-welfare-facilities-specific mail-order business in March 2012 for the expansion of that business.

### Operating Results

As a result of these initiatives, consolidated net sales for the year ended March 31, 2012 reached 30,582 million yen (a 6.3% year-on-year increase) thanks to remarkable sales made by the EC business, etc., and the contribution of services for the care/medical/social welfare industries to increased revenue, although the automobile-related and lifestyle-related information businesses, our main businesses, were negatively influenced by the voluntary restraints of advertising activities after the Great East Japan Earthquake.

Operating income, meanwhile, was 5,846 million yen (a 4.3% year-on-year decrease) because of increased advertising costs incurred by intensified promotion of the IT business and because of increased survey costs incurred by research of

potential business in overseas markets. Ordinary income was 6,002 million yen (a 5.9% year-on-year decrease). Net income was 3,275 million yen (a 2.4% year-on-year increase). This is because the amount of the impairment loss and temporary depreciation in goodwill was larger in the year ended March 31, 2011 than in the year ended March 31, 2012.

### Business Segment

#### Automobile-related Information

Surrounded by these difficult external circumstances, the PROTO Group adopted the business policy of engaging in comprehensive management support for used car dealers in everything from stocking inventories to selling the merchandise. The Group has also made efforts to expand the number of clients and endeavored to maintain and increase the transaction value associated with each client.

In the year ended March 31, 2012, the Group pursued the globalization of the automobile-related information business by acquiring a 100% ownership of MTM Multimedia Sdn. Bhd. (presently, PROTO MALAYSIA Sdn. Bhd.), the number-one used-car information company in Malaysia, in September 2011. As for the “Goo” business, the expansion of business areas was pursued through the launch of the “Goo Okinawa Edition” (in September 2011) and the “Goo Shikoku Edition” (in August 2011) for an increase of clients. At the same time, the used-car database offered by “Goo-net” was updated and improved. For the EC business, which trades motorbike components and products, the expansion of membership and product lines was pursued through intensified promotional activities.

Also, through the unification of consolidated subsidiaries, REPAIR-TECH INC. and SYSTEM-ONE Corporation, in January 2012, business efficiency and product development capacity were boosted while the expansion of business areas was pursued.

In the Internet/mobile media business, services for smart-devices, such as iPhones, iPads, and Android terminals, were strengthened to meet diversified customer needs and to maximize connections with users, with the goal of enhancing the presence of the “Goo” brand further.

These initiatives for establishing a business environment tailored to various needs of customers resulted in an increase in the number of customers who use our media and services, as well as their willingness to purchase goods, despite the stagnating used-car market, thus leading to the expansion of business opportunities for our clients.

As the Group pursued the enhancement of the “Goo” brand by establishing competitive advantages with the above-mentioned initiatives and strived to maximize the synergy of the Group, net sales reached 26,704 million yen (a 4.5% year-on-year increase). Operating income, meanwhile, was 7,272 million yen (a 0.1% year-on-year decrease) because of advanced investment in the expansion of business areas for the

“Goo” business, increased advertising costs incurred by intensified promotion of the IT business, and an increase in the amount of depreciation in goodwill pertaining to the acquisition of a subsidiary.

### **Lifestyle-related Information**

The PROTO Group has endeavored to develop and provide goods and services that accurately grasp the needs of users and clients. The Group has also engaged in efforts to strengthen media power by expanding content and services (functions).

In the year ended March 31, 2012 (consolidated), the Company transferred the care-related business to PROTO MEDICAL CARE, our subsidiary, in June 2011, aiming for enhanced business efficiency. At the same time, the Company strived to fortify the temporary help services for the care, medical, and social welfare industries. Also, the expansion of the lifestyle-related information business was pursued through the acquisition of the elderly-care magazine business (“Heart Page Magazine”) and the social-welfare-facilities-specified mail-order business. Furthermore, “Oasis Navi,” websites for the search of pay nursing homes and residences targeting the elderly, was renewed as “Oasis Navi-Heart Page,” a portal for information on elderly care, with the goals of improving the content and usability of the websites for users.

In the culture-related information business, “VeeSCHOOL,” websites giving information on certifications and schools, was renamed as “Goo School” for the brand integration and for an increase in the number of clients and lecturers.

As a result of these business expansion initiatives, net sales marked 3,470 million yen (a 32.6% year-on-year increase). Operating income, meanwhile, was 228 million yen (a 24.0% year-on-year decrease) because business expansion and intensified promotion of the IT business that resulted in an increase in personnel and advertising costs, respectively.

### **Real Estate Business**

PROTO CORPORATION and PROTO-RIOS INC. focused on the rental management of their own properties, resulting in sales of 166 million yen (an 8.1% year-on-year decrease) and operating income of 83 million yen (a 20.1% year-on-year decrease).

### **Other Business**

As for the business process outsourcing (BPO) business offered by PROTO DATA CENTER, net sales was 240 million yen (a 42.1% year-on-year decrease), and operating income was a deficit of 149 million yen (a deficit of 91 million yen was reported the year earlier). This is because MARS FLAG Corporation had been sold in the year ended March 31, 2011 and removed from the consolidated Group, although PROTO DATA CENTER saw an increase in business deals with companies outside the Group during the year ended March 31, 2012.

## **Analysis of Financial Position**

### **Assets, Liabilities and Net Assets**

Total assets at the end of the current consolidated fiscal year were 28,585 million yen, increasing 2,421 million yen (9.3%) from the end of the previous fiscal year.

Current assets were 15,855 million yen, decreasing 205 million yen from the end of the previous fiscal year, as cash decreased due to the payment for the share acquisition to make MTM Multimedia Sdn. Bhd. (presently: PROTO MALAYSIA Sdn. Bhd.) a subsidiary and corporate tax, etc. (For further information on cash, see the consolidated statement of cash flows on page 19.)

Fixed assets were 12,729 million yen, increasing 2,627 million yen from the end of the previous fiscal year, due to the goodwill as MTM Multimedia Sdn. Bhd. (presently: PROTO MALAYSIA Sdn. Bhd.) became a subsidiary.

Liabilities were 6,015 million yen, decreasing 113 million yen from the end of the previous fiscal year, as payables increased due to the expansion of the business scale while accrued corporate tax and long-term borrowings, etc. decreased.

Net assets were 22,569 million yen, increasing 2,535 million yen from the end of the previous fiscal year, as 836 million yen was paid for dividends and a current net profit of 3,275 million yen was posted, and so retained earnings increased 2,438 million yen.

### **Consolidated Cash Flows**

Cash and cash equivalents at the end of the current consolidated fiscal year stood at 11,524 million yen, a decrease of 952 million yen from the previous fiscal year. Major factors for this decrease were as follows.

#### **Cash Flows from Operating Activities**

As for the cash flows from operating activities, there was cash provided of 3,556 million yen (an 8.7% year-on-year decrease), as income before income tax increased, the payment of corporate income tax, etc. decreased, and trade payables increased, while notes and accounts receivable increased.

#### **Cash Flows from Investing Activities**

As for the cash flows from investing activities, there was cash used of 3,606 million yen, as we paid 2,842 million yen for acquiring the shares of MTM Multimedia Sdn. Bhd. (presently: PROTO MALAYSIA Sdn. Bhd.) to make it a subsidiary, 359 million yen for obtaining tangible fixed assets due to the reconstruction of branch facilities, etc., and 356 million yen for receiving intangible fixed assets due to the acquisition of land lease rights, etc.

#### **Cash Flows from Financing Activities**

As for the cash flows from financing activities, there was cash used of 907 million yen, as we paid 824 million yen for dividends and paid 82 million yen for settling long-term borrowings.

# Business Risks

The following sets out the various items that can potentially have a serious impact on investors' decisions.

The PROTO Group does not necessarily view the items mentioned below as business risks. However, it is important to understand such items in relation to the Group's business activities when making investment decisions. Their inclusion here signifies our commitment to disclosing information to investors. Having recognized these risks, the PROTO Group endeavors to avoid them and/or adopt appropriate measures in event of their occurrence.

Items contained in the following paragraphs concerning the future are based on judgments made by the PROTO Group as of the financial filing date, May 11, 2012.

## 1. Dependence on Automobile-related Information

The PROTO Group consists of PROTO CORPORATION and 10 consolidated subsidiaries. The Group's main businesses are the provision of information services on new vehicles, used vehicles, parts, and accessories; other automobile-related information; information on the cultural, care-related, and reuse businesses; and lifestyle-related information services. Revenues from automobile-related information derive from fees paid to register inventory data on used cars owned by car dealers on our databases and in our information magazines, as well as information magazine sales and sales from providing information to other companies. In the year ended March 31, 2012, 87.3% of total Group revenues derived from sales of automobile-related information. Fees for registering information accounted for 64.8% of total Group revenues. Accordingly, the Group depends on automobile-related information registration fees for a substantial portion of its revenues.

Furthermore, sales of the car information magazine Goo account for 31.5% of consolidated net sales. Accordingly, the performance of Goo can significantly impact the Group's business results. Nonetheless, we intend to reduce our dependence on Goo and are currently taking steps toward this objective. For example, we are expanding sales of our various secondary products developed using our abundance of information related to automobiles, as well as our lineup of Internet-related products.

## 2. Market Fluctuations in Printing Paper

Paper is required for printing and producing various publications, such as the car information magazine Goo, a core product. Purchase prices for printing paper are determined

through negotiations with suppliers, while monitoring market prices. It is possible that printing costs will increase if there are significant increases in printing paper prices. Nonetheless, the PROTO Group is endeavoring to mitigate this risk by shifting from using mainly magazines to employing the Internet and mobile media to disseminate information, due to the growing popularity of that medium.

Market rates announced for the printing paper used by the PROTO Group are as follows.

Market Rates for A2 Coated Paper (Distributor Wholesale Price (yen/ kg))					
	Mar. 2011	June 2011	Sept. 2011	Dec. 2011	Mar. 2012
Price	116-126	117-126	117-126	117-126	127-128

(Source: NIKKEI)

## 3. Dependence on Specific Vendors

The Group consigns printing of its mainstay magazine Goo and other major publications to the Kyoritsu Printing Group. In the year ended March 31, 2012, this represented 35.3% of total outsourcing expenditure. We use Kyoritsu Printing because of its stable supply system, its high reliability in meeting delivery schedules, and its ability to meet the technological needs of the PROTO Group.

While we enjoy the stable supply system and business relationship afforded by Kyoritsu Printing, we recognize that certain circumstances could affect our dealings with that company, and that its supply of media could be impeded as a result. Therefore, we also consign printing to other companies in an effort to diversify away risks affecting our overall printing activities.

## 4. Dependence on Specific Suppliers

Supply of printing paper to the PROTO Group for its mainstay Goo magazine and other major publications is sourced from Tokyo Pulp & Paper Co., Ltd. In the year ended March 2012, Tokyo Pulp & Paper supplied 35.6% of all printing paper sourced by PROTO CORPORATION. We use Tokyo Pulp & Paper because of its stable supply system, and its ability to meet the needs of the PROTO Group. We are also able to achieve cost reductions by limiting procurement to a single supplier.

We enjoy a stable supply of paper and a good relationship with Tokyo Pulp & Paper. Should there be a problem with our current arrangement for some reason or other, however, we will need to change and diversify our sources of paper, which may make it difficult to achieve the cost-reduction benefits received to date.



## 5. Legal Restrictions on Content

All sorts of content appear on the Internet, including content that violates rules covering protection of privacy, public decency, and intellectual copyrights. It is possible that certain legal restrictions may be implemented in the future to address these kinds of issues.

To date, the Group has addressed consumer needs by providing helpful content considered necessary by society without experiencing problems related to delivering content via the Internet. Accordingly, we believe that we would not be affected by legal restrictions covering the Internet. However, it is difficult to predict the precise effects that such implementation would have on the Group, given that the particulars and scope of such legal restrictions have yet to be made public.

## 6. System Security and Risk from Network Downtime

The PROTO Group has constructed a computer system that utilizes the Internet to perform its services, and it continually invests in capacity and performance maintenance on the system while including the latest system and security technology as required. However, in the event of damage or interruption of the PROTO Group's system due to hardware or software defects, sudden increases in amount of access, human error, network line problems, computer viruses, power outage, natural disaster, or other unforeseeable factors, the possibility exists that such damage or interruption could have a serious impact on the performance of the PROTO Group.

## 7. Protection of Personal Information

Recently, personal information leaks by a large number of companies have become a social problem. The PROTO Group endeavors to protect personal information in an appropriate manner through the implementation of its Regulations for the Protection of Personal Information. These regulations are based on the President's Policy on the Protection of Personal Information, formulated in accordance with Japan's Personal Information Protection Law, enacted in April 2005.

However, in the event that personal information held by the Group is leaked to outside entities or used fraudulently, the Group could be subject to compensation claims and lose the confidence of the public community, which could have an adverse impact on its performance.

## 8. Corporate Responsibility for Digital Content

As an information service provider that uses various forms of media, the Group believes that it is in the same position as other mass media insofar as its impact on society is concerned. Therefore, in the unlikely event that we make an error in the information content we provide, it is possible that we could inflict tangible or intangible harm on a particular person or corporation and that we could be sued for damages.

The Group strives to ensure strict control over information content through its system of carrying out multiple checks. However, in the unlikely event of an error, it is possible that we could lose the trust of society, which could have an adverse impact on the Group's performance.

## 9. Legal Regulations for Used Car Export Business

In the Group, the used car export business is conducted by Goo Auto Inc. and Kings Auto Co., Ltd. (acquired in April 2012). Goo Auto and Kings Auto export used cars to Asian countries via used car dealers, which are our major clients, and auction sites, respectively.

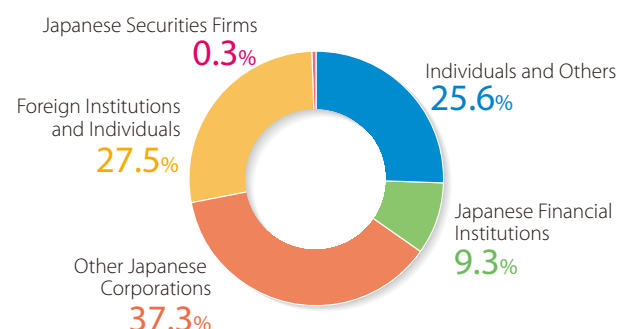
The performance of the used car export business of the Group may be affected, if the government of an importing country drastically revises tariff measures and import regulations, etc.

# Stock Information

As of March 31, 2012

Number of Shares Authorized	30,900,000
Number of Shares Issued	10,470,000
Number of Shareholders	3,384
Stock Exchange Listing	Osaka Securities Exchange (JASDAQ)
Securities Code	4298
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan Tel: 81-(0) 3-3212-1211

## Distribution of Ownership among Shareholders



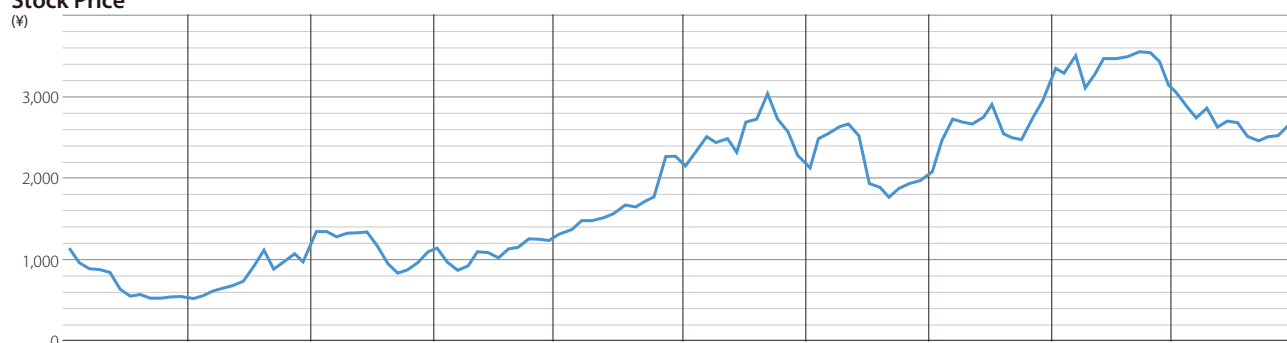
## Major Shareholders

	Shareholder	Number of Shares Held (Thousands)	Ownership (%)
1	Mugen Corporation	3,403	32.50
2	Japan Trustee Services Bank, Ltd. (Trust Account)	523	5.00
3	Hiroichi Yokoyama	520	4.96
4	Yoshihiro Yokoyama	310	2.96
5	The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	266	2.54
6	Morgan Stanley & Co. LLC	236	2.25
7	Northern Trust Co. (AVFC) Sub A/C American Clients	178	1.70
8	The Bank of New York Mellon as Agent BNYM AS EA Dych Pension Omnibus 140016	175	1.67
9	Minoru Saito	170	1.62
10	BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Subportfolio)	160	1.52

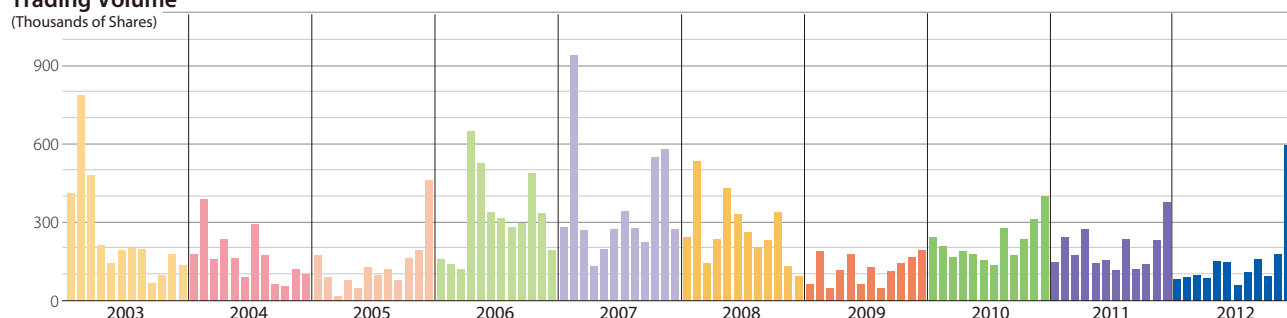
## Stock Price and Trading Volume

Years ended March 31

### Stock Price



### Trading Volume



Notes: 1. Stock prices are based on a simple average of daily closing prices for each day of every month.

2. The Company executed a 1.2-for-one stock split for the Company's common stock effective October 31, 2006. Stock prices have been adjusted retroactively.

# Corporate Profile

As of March 31, 2012

<b>Corporate Name</b>	PROTO CORPORATION
<b>Founded</b>	October 1, 1977
<b>Established</b>	June 1, 1979
<b>Common Stock</b>	¥1,824,620 thousand
<b>Head Offices</b>	<Nagoya> 23-14, Aoi 1-chome, Naka-ku, Nagoya 460-0006, Japan <Tokyo> 22-2, Hongo 2-chome, Bunkyo-ku, Tokyo 113-0033, Japan
<b>Branch Offices</b>	Sapporo, Sendai, Takasaki, Tokyo, Nagano, Hamamatsu, Nagoya, Kanazawa, Osaka, Hiroshima, Matsuyama, Fukuoka, Kumamoto (56 Sales Outlets Nationwide/2 Head Offices, 13 Branch Offices, 41 Sales Offices)
<b>Fiscal Year-end</b>	March 31
<b>Number of Employees</b>	Consolidated: 954 (Parent: 644)
<b>Consolidated Subsidiaries</b> (As of July 1, 2012)	<div> Kings Auto Co., Ltd.  Bike Bros. Inc.  PROTO-RIOS INC.  CAR CREDO Co., Ltd.  PROTO MEDICAL CARE  PROTO DATA CENTER </div> <div> PROTO MALAYSIA Sdn. Bhd.  PROTO (TAIWAN) CO., LTD.  PROTO SINGAPORE Pte. Ltd.  MTM Interactive Sdn. Bhd. *1  SMT Media Pte. Ltd.  *1 Account currently being settled. </div>

## Directors, Corporate Auditors, and Executive Officers

As of July 1, 2012

### Directors

<b>Chairman and Chief Executive Officer</b> Representative Director	<b>Hiroichi Yokoyama</b>	1979 2003	Established the Company, President Chairman and CEO
<b>President and Chief Operating Officer</b> Representative Director	<b>Tatsuzo Irikawa</b>	1992 1995 2003	Joined the Company Director President and COO
<b>Vice President</b> Affiliated Company Business Planning Division Officer	<b>Minoru Saito</b>	1981 1988 2001	Joined the Company Director Vice President
<b>Managing Director</b> Accounting and Financial Division Officer	<b>Motohisa Yokoyama</b>	1979 1995 2001	Joined the Company Director Managing Director
<b>Managing Director</b> Automobile-related Information Officer	<b>Fujio Iimura</b>	1990 2002 2008	Joined the Company Director Managing Director
<b>Managing Director</b> Overseas Division Officer	<b>Atsuya Okimura</b>	1995 2004 2008	Joined the Company Director Managing Director
<b>Director</b> Automobile-related Information Officer	<b>Susumu Kuramoto</b>	1990 1999	Joined the Company Director
<b>Director</b> Automobile-related Information Officer	<b>Kenji Kamiya</b>	1990 2002	Joined the Company Director
<b>Director</b> Automobile-related Information Officer	<b>Mitsuhiro Munehira</b>	1994 2007	Joined the Company Director
<b>Director</b> IT Solution Division Officer	<b>Toru Shiraki</b>	1998 2007	Joined the Company Director
<b>Director</b> Management Division Officer	<b>Shigeyoshi Shimizu</b>	1999 2008	Joined the Company Director

### Corporate Auditors

<b>Standing Corporate Auditor</b>	<b>Mitsuo Goto</b>	2011 2011	Joined the Company Standing Corporate Auditor
<b>External Corporate Auditor</b>	<b>Wataru Shiomi</b>	2001	External Corporate Auditor
<b>External Corporate Auditor</b>	<b>Yoshio Arima</b>	2005	External Corporate Auditor

### Executive Officers

<b>Executive Officer</b> Automobile-related Information Officer	<b>Shuji Kondo</b>
<b>Executive Officer</b> Sales Promotion Division Officer	<b>Naoki Fujisawa</b>
<b>Executive Officer</b> Lifestyle-related Information Officer	<b>Motoki Fukaya</b>

### For further information

Corporate Planning Department  
PROTO CORPORATION  
23-14, Aoi 1-chome, Naka-ku, Nagoya 460-0006, Japan  
TEL: 81-(0) 52-934-1519 FAX: 81-(0) 52-934-1750 E-mail: 4298ir@proto-g.co.jp



**PROTO CORPORATION**

<http://www.proto-g.co.jp/>