

Registered Number 787446

Honda GP Limited

(formerly BAR Honda GP Limited and British American Racing GP Limited)

Annual report
for the year ended 31 December 2004



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Honda GP Limited

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(formerly BAR Honda GP Limited and British American Racing GP Limited)

Directors' report for the year ended 31 December 2004

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

Local currency

In previous reporting periods the company considered US Dollar to be its local currency. During the year the company reviewed the primary economic environment in which it operates and generates cash flows. Following this review the company determined that Sterling is its local currency. Consequently these financial statements are presented in Sterling with all transactions or balances in currencies other than sterling treated as being in foreign currency.

In presenting comparative information in these financial statements, the company has retranslated the profit and loss account for the year ended 31 December 2003 using the exchange rate at 31 December 2003. The balance sheet as at 31 December 2003 has been retranslated, also using year end exchange rates.

Principal activity

The principal activity of the company is the design, development, manufacture, test and racing of Formula One motor racing cars.

Review of business and future developments

The profit and loss account for the year is set out on page 5.

The directors consider that the trading performance of the company was in line with expectations for the year. Further progress has been made on core skills, the strengthening of the design and engineering capability and improved business process. The result was a more competitive performance in the FIA Formula One World Constructors' Championship, with the team improving to finish the 2004 season in 2nd place, compared to 5th in 2003. The directors believe that the progress made in 2004 created the platform for improved future performance in terms of both trading and sporting results. This view was subsequently confirmed by the willingness of Honda Motor Company to invest in the team.

Post balance sheet events

The name of the Company changed from British American Racing GP Limited to BAR Honda GP Limited on 10 January 2005, and subsequently to Honda GP Limited on 10 January 2006.

Subsequent to the year end, on 6 January 2005 the company benefited from £46.4m of inter company debt relief. Further, on 7 January 2005, the entire share capital of the company was acquired by a new joint venture company, BARH Limited. BARH Limited was a joint venture between British American Tobacco plc. and Honda Motor Company Limited. On 20 December 2005 BARH Ltd became a wholly owned subsidiary of Honda Motor Company Limited and its name was subsequently changed to Honda GP Holdings Ltd. On 22 December 2005 the company benefited from £103.1m of inter company debt relief.

Dividends

The directors do not recommend payment of a dividend (31 December 2003: £Nil).

Research and development

The company's research and development activities are discussed in note 1.

Directors

The directors who held office during the year are given below:

C Pollock	(Ceased to hold the office of director on 7 January 2005)
N Fry	
N Kerr	
D Richards	(Resigned 25 November 2004)

Subsequent to the year end S Tanaka and C McGrory were appointed as directors of the company on 7 January 2005, Y Wada was appointed as a director on 27 April 2005 and N Brookes was appointed as a director on 20 September 2005. C McGrory later resigned on 7 January 2005, S Tanaka resigned on 27 April 2005 and N Brookes resigned on 20 December 2005.

Directors' interests

None of the directors who held office at the end of the year had any interest in the share capital of the company.

The interests of C Pollock at 31 December 2004 in the share capital of the company's immediate parent, British American Racing (Holdings) Limited – In Administration, which are held indirectly by a company in which he was the majority shareholder were:

	2004 Number	2003 Number
Ordinary shares of US\$1.75 each		
C Pollock ('C' shares)	7,000,000	7,000,000

The interests of N Kerr at 31 December 2004 in options over the share capital of the company's ultimate parent, British American Tobacco plc, were:

	2004 Number	2003 Number
Number of options		
N Kerr	11,140	6,270

Except as disclosed above, no director had an interest in the shares of any group company during the period.

Employees

The company maintains its commitment to pro-active programmes for involving its employees in company affairs. This is achieved in a variety of ways, including the regular publication of newsletters and staff briefings and by consultations with staff committees. Regular staff attitude surveys are undertaken and a number of suggestion schemes are in operation, providing a regular flow of ideas for improving efficiency and performance.

It is the policy of the company that disabled people, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The company is prepared to modify procedures or equipment wherever this is practicable, so that full use can be made of an individual's abilities.

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(formerly BAR Honda GP Limited and British American Racing GP Limited)

Donations

During the year the company made charitable donations amounting to £13,871 (2003: £3,267).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

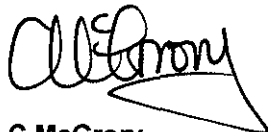
The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 9 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year to 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



C McGrory
Company Secretary

**Independent auditors' report to the members of
Honda GP Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its loss and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

31st March 2006

Profit and loss account for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover	2	59,738	50,075
Administrative expenses		(69,969)	(70,255)
Operating loss		(10,231)	(20,180)
Bank interest receivable		-	13
Interest payable and similar charges	5	(362)	(386)
Loss on ordinary activities before taxation	2, 6	(10,593)	(20,553)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year	15	(10,593)	(20,553)

The results for the years above are derived entirely from continuing operations.


The company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the years stated above and their historical cost equivalents.

Balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	8	10,147	10,765
Investments	9	-	-
		10,147	10,765
Current assets			
Stock	10	7,028	3,792
Debtors	11	8,360	3,960
Cash at bank and in hand		6	-
		15,394	7,752
Creditors – Amounts falling due within one year	12	(181,208)	(163,591)
Net current liabilities		(165,814)	(155,839)
Net liabilities		(155,667)	(145,074)
Capital and reserves			
Called-up share capital	14	-	-
Share premium account	15	44	44
Profit and loss account (deficit)	15	(155,711)	(145,118)
Equity shareholders' funds (deficit)	16	(155,667)	(145,074)

The financial statements on pages 5 to 20 were approved by the board of directors on 28 March 2005 and were signed on its behalf by:


N Kerr
 Director

Cash flow statement for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Operating activities			
Net cash outflow from continuing activities (reconciliation to operating loss (see page 8))		(19,391)	(20,720)
Returns on investment and servicing of finance			
Interest received		-	13
Interest paid		(359)	(405)
Net cash outflow from returns on investments and servicing of finance		(359)	(392)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,795)	(652)
Sale of tangible fixed assets		133	-
Net cash outflow from capital expenditure and financial investment		(2,662)	(652)
Net cash outflow before use of liquid resources and financing		(22,412)	(21,764)
Management of liquid resources			
Decrease in short term deposits with banks		-	476
Financing			
Repayment of bank loans		-	(383)
Proceeds from issue of new inter company loans	12	18,714	18,639
Net cash inflow from financing		18,714	18,256
Decrease in net cash	17	(3,698)	(3,032)

Reconciliation of operating loss to net cash outflow from operating activities

	2004	2003
	£'000	£'000
Operating activities		
Operating loss	(10,231)	(20,180)
Depreciation of tangible fixed assets	2,893	2,233
Profit on sale of fixed assets	(63)	-
(Increase)/decrease in debtors	(4,400)	1,307
Increase in stock	(3,236)	(1,420)
Increase/(decrease) in creditors	7,615	(1,605)
Exchange movement	(11,969)	(1,055)
Net cash outflow from operating activities	(19,391)	(20,720)

Notes to the financial statements for the year ended 31 December 2004**1 Principal accounting policies**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

Basis of accounting

Honda Motor Company Limited, the ultimate parent company has indicated that it will make available such funds as are necessary to allow the company to continue trading for the foreseeable future and consequently the financial statements have been prepared on a going concern basis.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling £ at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling £ at the rate of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided so as to write off the cost of tangible fixed assets, using the following rates and bases to reduce by annual instalments the cost, less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	8.33
Leasehold buildings	10
Plant and machinery	25
Fixtures and equipment, computer equipment	20-25
Motor and commercial vehicles	25

Stock

Stock is stated at the lower of cost and net realisable value. All the costs incurred on raw materials and components acquired in respect of the next year's car are included in stock and are expensed in the year in which full race testing of the car commences, together with an element of overheads.

The company has amended the costs it uses to value stock to include an element of overheads in the valuation. The effect of this in the current year is to increase stock by £1,931,272.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership are treated as if the asset had been purchased outright. The assets are included in tangible fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of change on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful life of equivalent owned assets.

Deferred taxation

Provision is made for deferred taxation, using the full provision method, on all material timing differences. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Discounting is not applied to deferred taxation.

Research and development

Research and development expenditure is written off in the period in which it is incurred. The activities of the company are all dedicated towards the design and development of a car to compete successfully in Formula One motor racing. Accordingly it is not possible to quantify separately the costs relating to this aspect of the company's activities.

Turnover

Turnover, which excludes value added tax and trade discounts represents the invoiced value of goods and services supplied, sponsorships, prize money and other income relating to the company's principal activity, arising in the period and for which collectability is assured.

Related parties

FRS 8 'Related Party Disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. The company has not disclosed transactions with other group companies in accordance with the exemption in FRS 8 paragraph 3(c).

Pension scheme

The company does not operate a pension scheme. The company provides no other post retirement benefits to its employees.

2 Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation are wholly attributable to its principal activity arising in the United Kingdom.

3 Directors' emoluments

	2004	2003
	£'000	£'000
Sums paid to third parties for directors' services	136	101

No directors were paid directly by the company either in the year ended 31 December 2004 or in the year ended 31 December 2003.

The above details of directors' emoluments do not include the emoluments of Mr Richards and Mr Fry, which are paid to a third party in which Mr Richards has an interest. In the year ended 31 December 2004, an amount of £4,134,000 (2003: £2,713,767) has been paid to the third party for management services received and it is not possible to identify separately the amount of Mr Richards' and Mr Fry's emoluments and as such no amounts are set out in the table above. Without separately identifying the emoluments of each individual director it is not possible to identify the aggregate emoluments of the highest paid director.

4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

By activity	2004 Number	2003 Number
Design, manufacturing and engineering	382	355
Administration	43	43
	425	398

Staff costs (for the above persons)	2004 £'000	2003 £'000
Wages and salaries	23,537	16,720
Social security costs	2,437	1,806
	25,974	18,526

5 Interest payable and similar charges

	2004 £'000	2003 £'000
Interest payable on bank loans and overdraft	362	386

6 Loss on ordinary activities before taxation

	2004 £'000	2003 £'000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation for the period on tangible fixed assets:		
- owned assets	2,117	1,744
- leased assets	776	489
Auditors' remuneration:		
- audit services	28	25
- non-audit services	44	26
Hire of plant and machinery	195	174
Hire of other assets	1,199	1,072
Profit on sale of fixed assets	(63)	-
Gain on foreign exchange differences	(15,442)	(1,727)

7 Tax on loss on ordinary activities

The company has estimated taxation losses available to be carried forward of approximately £140 million (2003: £130 million) which will be available to reduce future taxable income. These losses have not yet been agreed with the tax authorities.

The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities multiplied by standard rate in the UK 30% (2003: 30%)	3,097	6,166
Effects of:		
Expenses not deductible for tax purposes	(344)	(715)
Excess capital allowances over depreciation	(626)	(438)
Losses	(2,127)	(5,013)
Current tax charge for the period	-	-

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8 Tangible fixed assets

Cost	Leasehold land and buildings including tenants improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2004	10,327	1,685	2,359	6,588	608	21,567
Additions	-	1,562	290	445	48	2,345
Disposals	-	(65)	-	(40)	(28)	(133)
At 31 December 2004	10,327	3,182	2,649	6,993	628	23,779
Accumulated depreciation						
At 1 January 2004	(2,847)	(600)	(1,450)	(5,638)	(267)	(10,802)
Charge for the year	(776)	(664)	(647)	(654)	(152)	(2,893)
Disposals	-	24	-	25	14	63
At 31 December 2004	(3,623)	(1,240)	(2,097)	(6,267)	(405)	(13,632)
Net book amount						
At 31 December 2004	6,704	1,942	552	726	223	10,147
Net book amount						
At 31 December 2003	7,480	1,085	909	950	341	10,765

9 Fixed asset investments**Interests in subsidiary undertakings**

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held	Principal activities
Advantage CFD Limited	Great Britain	Ordinary shares of £1 each	100%	Dormant

10 Stock

	2004 £'000	2003 £'000
Raw materials and components	7,028	3,792

11 Debtors

	2004 £'000	2003 £'000
Amounts falling due within one year		
Trade debtors	977	873
Other taxation	257	184
Prepayments and accrued income	7,126	2,903
	8,360	3,960

12 Creditors – Amounts falling due within one year

	2004	2003
	£'000	£'000
Bank loans and overdraft (secured see note 20)	13,663	9,778
Trade creditors	12,683	8,700
Other taxation and social security	1,105	710
Amounts owed to group undertakings	146,073	139,509
Accruals and deferred income	7,684	4,894
	181,208	163,591

The bank loans and overdraft are secured by guarantees from the group shareholders. Amounts owed to group undertakings are unsecured, interest free and have no fixed repayment date.

13 Deferred taxation

Deferred taxation provided in the financial statements and the amount unrecognised of the total potential liability/(asset) are as follows:

	Amounts provided		Amount not recognised	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Excess of capital allowances over depreciation	-	-	(1,761)	(1,553)
Losses	-	-	(41,886)	(38,872)
	-	-	(43,647)	(40,425)

14 Called-up share capital

	2004	2003
	£	£
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called-up and fully paid		
111 ordinary shares of £1 each	111	111

15 Reserves

	Share premium account £'000	Profit and loss account (deficit) £'000
At 1 January 2003	44	(145,118)
Loss for the year	-	(10,593)
At 31 December 2004	44	(155,711)

16 Reconciliation of movement in shareholders' funds (deficit)

	2004 £'000	2003 £'000
Loss for the financial year	(10,593)	(20,553)
Opening shareholders' funds (deficit)	(145,074)	(124,521)
Closing shareholders' funds (deficit)	(155,667)	(145,074)

17 Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Decrease in cash in the year	(3,698)	(3,032)
Cash inflow from loan from group undertaking	(18,714)	(18,639)
Cash outflow from decrease in debt and lease financing	-	383
Cash inflow from (decrease)/increase in liquid resources	-	(477)
Change in net debt resulting from cash flows	(22,412)	(21,765)
Other non-cash items:		
Exchange movement	11,969	1,055
Movement in net debt in the year	(10,443)	(20,710)
Net debt at 1 January	(149,287)	(128,577)
Net debt at 31 December	(159,730)	(149,287)

18 Analysis of net debt

	2003 £'000	Cash flow £'000	Other non-cash changes £'000	Exchange movement £'000	2004 £'000
Cash at bank and in hand	-	6	-	-	6
Overdraft	(9,778)	(3,704)	-	(181)	(13,663)
	(9,778)	(3,698)	-	(181)	(13,657)
Amounts owed to group undertakings	(139,509)	(18,714)	-	12,150	(146,073)
Total	(149,287)	(22,412)	-	11,969	(159,730)

19 Financial commitments

At 31 December 2004 there were annual commitments under non-cancellable operating leases as follows:

	Land and buildings	Other	Land and buildings	Other
	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Leases expiring within one year	-	-	-	1,460
Leases expiring between two and five years	-	-	-	-
Leases expiring thereafter five years	714	-	595	-
	714	-	595	1,460

20 Contingent liabilities

The company had guaranteed the bank and other borrowings of fellow group undertakings until 8 December 2004.

This cross guarantee was cancelled when British American Racing (Holdings) Limited went into administration and there were no amounts guaranteed as at 31 December 2004 (31 December 2003: £72,142).

21 Related party transactions

Name of connected parties	Description of relationship	Description of transactions	Value of transactions during the period £'000	Amounts owed by/(to) related parties at 31 December 2004 £'000
Mr A J Reynard	Director of immediate parent company British American Racing (Holdings) Ltd – In Administration	Purchases of goods/services from companies controlled by Mr A J Reynard or which were controlled by Mr A J Reynard prior to being placed in receivership	864 (2003: 190)	(179) (2003: Nil)
B.A.T. (Westminster House) Limited and its fellow group undertakings	Significant shareholder	Total sponsorship income	21,500 (2003: 18,989)	Nil (2003: Nil)
		Purchase of goods/services	619 (2003: 523)	(443) (2003: (365))
		Sale of goods/services	2,434 (2003: 1,657)	100 (2003: 6)

In order to provide greater certainty over the availability of suitable operating facilities, in 2003 the company entered into certain arrangements over land and buildings with the Trustees of the Reynard Racing Cars Ltd Directors' Pension Fund, in which Mr A J Reynard, a director of the company's immediate parent company (British American Racing (Holdings) Ltd – In Administration) has an interest. These arrangements comprised two elements. The company exchanged its freehold interests in property on the Reynard Park estate at Brackley for leasehold interests in the same property for a period of ten years rent-free. The company also entered into leasehold arrangements for all of the remaining properties on the Reynard Park site. Amounts of £864,374 were paid in respect of year ended 31 December 2004 in relation to these arrangements.

22 Post balance sheet events

Subsequent to the year end, on 6 January 2005 the company benefited from £46.4m of inter company debt relief. Further, on 7 January 2005, the entire share capital of the company was acquired by a new joint venture company, BARH Limited. BARH Limited was a joint venture between British American Tobacco plc. and Honda Motor Company Limited. On 20 December 2005 BARH Ltd became a wholly owned subsidiary of Honda Motor Company Limited and its name was subsequently changed to Honda GP Holdings Ltd. On 22 December 2005 the company benefited from £103.1m of inter company debt relief.

23 Ultimate parent company and controlling party

At 31 December 2004 British American Racing (Holdings) Limited – In Administration, a company incorporated in Great Britain, was the immediate parent company and the directors regarded British American Tobacco PLC, also a company incorporated in Great Britain, as the ultimate parent company and the controlling party. As at the date of this report Honda GP Holdings Limited, a company incorporated in Great Britain, is the immediate parent company and the directors regard Honda Motor Company Limited, a company incorporated in Japan, as the ultimate parent company and controlling party, due to its 100% interest in the equity share capital of the immediate parent company.