

Registered Number 787446

Honda GP Limited
(formerly BAR Honda GP Limited)

Annual report
for the year ended 31 December 2005



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for the year ended 31 December 2005**

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Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

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 directors consider that the trading performance of the company was in line with expectations for the year. The company operated under the joint venture arrangements between British American Tobacco and Honda Motor Co from 7 January until 20 December 2005, when Honda Motor Co acquired 100% of the equity in the company's immediate parent. The transition to Honda ownership was conducted with the minimum of disruption to the core operation of participation in the FIA Formula One World Constructors' Championship. This greater level of stability meant that the company was able to plan and commence a programme of capital investment to improve its technical infrastructure, which the directors believe will lead to further improvements in future performance.

On 10 January 2006 the company changed its name from BAR Honda GP Limited to Honda GP Limited.

Results and dividends

The results for the year are shown on page 6. The directors do not recommend payment of a dividend (2004: £Nil).

Financial risk management

The company's operations expose it to a variety of financial risks that include, to a greater or lesser degree, the effects of changes in interest rates, liquidity risk, credit risk and foreign exchange risk.

Interest and liquidity risk

The company's ultimate parent undertaking, Honda Motor Co Ltd, manages the interest rate and liquidity risks associated with the whole Honda Group, as disclosed in the financial statements of that company. Honda GP Ltd is financed by bank loans and overdraft and intercompany borrowings.

The company pays interest on intercompany borrowings and at a rate of interest determined by the group, and its bank deposits and overdraft facilities are at a variable rate. No financial instruments were used by the Company during the year to manage interest rate costs, and therefore no hedge accounting has been applied.

Credit risk

The company's exposure to credit risk is primarily through its sponsorship contracts and it has implemented policies that require appropriate credit checks on potential sponsors during the negotiation of new contracts. Any specific risks are brought to the attention of management and are reassessed regularly.

Directors' report for the year ended 31 December 2005 (continued)

Foreign exchange risk

The company is exposed to movements in foreign exchange rates as a result of revenue receipts in currencies other than sterling. Up to the end of 2005 the company had a strict policy of placing 12 month forward contracts for the sale of foreign currency denominated revenues into sterling, thereby protecting itself from the effects of volatile currency rates. From 2006 the company's ultimate parent undertaking, Honda Motor Co Limited, has taken on the responsibility of managing the company's foreign exchange risk and, as a consequence, the company has ceased placing forward exchange contracts.

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.

Directors and their interests

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

N Fry	
N Kerr	
N Brookes	(Appointed on 20 September 2005 and resigned on 20 December 2005)
C Pollock	(Ceased to hold the office of director on 7 January 2005)
C McGrory	(Appointed on 7 January 2005 and resigned on 7 January 2005)
S Tanaka	(Appointed on 7 January 2005 and resigned on 27 April 2005)
Y Wada	(Appointed on 27 April 2005)

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

The immediate parent undertaking of the company at 31 December 2004 and up until 7 January 2005 was British American Racing (Holdings) Limited. The interests of C Pollock at 31 December 2005 and 31 December 2004 in the share capital of the company's immediate parent, British American Racing (Holdings) Limited, which are held indirectly by a company in which he is the majority shareholder were:

	2005 Number	2004 Number
Ordinary shares of US\$1.75 each		
C Pollock ('C' shares)	7,000,000	7,000,000

Directors' report for the year ended 31 December 2005
(continued)

The ultimate parent undertaking and controlling party of the company at 31 December 2004 and up until 20 December 2005 was British American Tobacco plc. The interests of N Kerr at 31 December 2005 and 31 December 2004 in options over the share capital of the company's ultimate parent, British American Tobacco plc, were:

	2005 Number	2004 Number
Number of options		
N Kerr	16,067	11,140

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.

Donations

During the year the company made charitable donations amounting to £14,629 (2004: £13,871).

**Directors' report for the year ended 31 December 2005
(continued)**

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year 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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year to 31 December 2005 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


N Ken
Company Secretary

Independent auditors' report to the members of Honda GP Limited

We have audited the financial statements of Honda GP Ltd for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows 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 October 2006

Profit and loss account for the year ended 31 December 2005

		2005	2004
	Note	£'000	£'000
Turnover	2	96,998	59,738
Administrative expenses		(100,210)	(69,969)
Operating loss	6	(3,212)	(10,231)
Interest receivable and similar income		41	-
Interest payable and similar charges	5	(399)	(362)
Other financial income	6	149,524	-
Profit/(loss) on ordinary activities before taxation	2, 6	145,954	(10,593)
Tax on profit/(loss) on ordinary activities	7	-	-
Retained profit/(loss) for the financial year	15	145,954	(10,593)

The profit/(loss) for the years above are derived entirely from continuing operations.

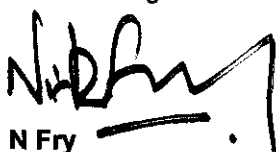
The company has no recognised gains and losses other than the profit/(loss) above and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet as at 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	8	29,158	10,147
Investments	9	-	-
		29,158	10,147
Current assets			
Stock	10	7,420	7,028
Debtors	11	24,337	8,360
Cash at bank and in hand		10,635	6
Cash at bank and in hand restricted		800	-
		43,192	15,394
Creditors – Amounts falling due within one year	12	(82,063)	(181,208)
Net current liabilities		(38,871)	(165,814)
Total assets less current liabilities		(9,713)	(155,667)
Capital and reserves			
Called-up share capital	14	-	-
Share premium account	15	44	44
Profit and loss account (deficit)	15	(9,757)	(155,711)
Equity shareholders' funds (deficit)	16	(9,713)	(155,667)

The financial statements on pages 6 to 20 were approved by the board of directors on 31 October 2006 and were signed on its behalf by:


N Fry
Director

Cash flow statement for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Operating activities			
Net cash inflow/(outflow) from continuing activities (reconciliation to operating loss (see page 8))		25,275	(19,391)
Returns on investment and servicing of finance			
Interest received		41	-
Interest paid		(414)	(359)
Net cash outflow from returns on investments and servicing of finance		(373)	(359)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(3,013)	(2,795)
Sale of tangible fixed assets		-	133
Net cash outflow from capital expenditure and financial investment		(3,013)	(2,662)
Net cash inflow/(outflow) before use of liquid resources and financing		21,889	(22,412)
Financing			
Proceeds from issue of new inter company loans	17	-	18,714
Net cash inflow from financing		-	18,714
Increase/(decrease) in net cash	17	21,889	(3,698)

**Reconciliation of operating loss to net cash inflow/(outflow)
from operating activities**

	2005 £'000	2004 £'000
Operating activities		
Operating loss	(3,212)	(10,231)
Depreciation of tangible fixed assets	3,745	2,893
Loss/(profit) on sale of fixed assets	33	(63)
Increase in debtors	(15,977)	(4,400)
Increase in stock	(392)	(3,236)
Increase in creditors	37,752	7,615
Exchange movement	3,326	(11,969)
Net cash inflow/(outflow) from operating activities	25,275	(19,391)

Notes to the financial statements for the year ended 31 December 2005

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	20-33.33
Motor and commercial vehicles	20

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.

1 Principal accounting policies

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 profit/(loss) on ordinary activities before taxation

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

3 Directors' emoluments

	2005	2004
	£'000	£'000
Aggregate emoluments	541	-
Sums paid to third parties for directors' services	126	136

	2005	2004
	£'000	£'000
Highest paid director:		
Aggregate emoluments	511	-

The above details of directors' emoluments for 2005 do not include the emoluments of S Tanaka and Y Wada, which were paid by a fellow group company. It was not possible to identify separately the amounts that relate to their services to this company and as such no amounts are set out in the table above.

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

The above details of directors' emoluments for 2004 do not include the emoluments of Mr Richards and Mr Fry, which were 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 was paid to the third party for management services received and it was 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 was not possible to identify the aggregate emoluments of the highest paid director in that year.

4 Employee information

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

By activity	2005	2004
Design, manufacturing and engineering	438	382
Administration	52	43
	490	425

	2005	2004
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	23,596	23,537
Social security costs	2,952	2,437
	26,548	25,974

5 Interest payable and similar charges

	2005 £'000	2004 £'000
Interest payable on bank overdraft	399	362

6 Operating loss

	2005 £'000	2004 £'000
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets:		
- owned assets	2,947	2,117
- leased assets	798	776
Auditors' remuneration:		
- audit services	50	28
- non-audit services	96	44
Operating lease charges		
- plant and machinery	104	195
- other assets	417	1,199

Other financial income of £149,954,000 (2004: £nil) relates to intercompany debt being forgiven.

7 Tax on profit/(loss) on ordinary activities

The company has estimated taxation losses available to be carried forward of approximately £131 million (2004: £140 million) which will be available to reduce future taxable income. These losses have not yet been agreed with the tax authorities.

The tax charge assessed for the year of £nil (2004: £nil) differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £'000	2004 £'000
Profit/(loss) on ordinary activities before tax	145,954	(10,593)
Profit/(loss) on ordinary activities multiplied by standard rate in the UK 30% (2004: 30%)	43,786	(3,178)
Effects of:		
Expenses not deductible for tax purposes	279	425
Excess capital allowances over depreciation	792	626
Non taxable debt waiver	(44,857)	-
Losses	-	2,127
Current tax charge for the year	-	-

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	Assets under construction £'000	Total £'000
At 1 January 2005	10,327	3,182	2,649	6,993	628	-	23,779
Additions	-	432	735	1,018	381	20,223	22,789
Disposals	-	-	-	-	(108)	-	(108)
At 31 December 2005	10,327	3,614	3,384	8,011	901	20,223	46,460
Accumulated depreciation							
At 1 January 2005	(3,623)	(1,240)	(2,097)	(6,267)	(405)	-	(13,632)
Charge for the year	(798)	(924)	(535)	(1,317)	(171)	-	(3,745)
Disposals	-	-	-	-	75	-	75
At 31 December 2005	(4,421)	(2,164)	(2,632)	(7,584)	(501)	-	(17,302)
Net book amount							
At 31 December 2005	5,906	1,450	752	427	400	20,223	29,158
At 31 December 2004	6,704	1,942	552	726	223	-	10,147

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

	2005 £'000	2004 £'000
Raw materials and components	7,420	7,028

11 Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year		
Trade debtors	1,387	977
Amounts owed by group undertakings	2,172	-
Other taxation	3	257
Prepayments and accrued income	20,775	7,126
	24,337	8,360

Amounts owed by group undertakings are interest free, unsecured and have no fixed date of repayment.

12 Creditors – Amounts falling due within one year

	2005 £'000	2004 £'000
Bank overdraft	3,078	13,663
Trade creditors	11,766	12,683
Other taxation and social security	13,051	1,105
Amounts owed to group undertakings	21,468	146,073
Accruals and deferred income	32,700	7,684
	82,063	181,208

The bank overdraft are secured by guarantees from the group shareholder (2004: shareholders). Amounts owed to group undertakings are interest free, unsecured and have no fixed date of repayment.

13 Deferred taxation

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

	Amounts recognised		Amount not recognised	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Excess of capital allowances over depreciation	-	-	(2,573)	(1,761)
Losses	-	-	(39,444)	(41,886)
	-	-	(42,017)	(43,647)

14 Called-up share capital

	2005 £	2004 £
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 2004	44	(155,711)
Profit for the year	-	145,954
At 31 December 2005	44	(9,757)

16 Reconciliation of movement in shareholders' funds (deficit)

	2005 £'000	2004 £'000
Profit/(loss) for the financial year	145,954	(10,593)
Opening shareholders' deficit	(155,667)	(145,074)
Closing shareholders' deficit	(9,713)	(155,667)

17 Reconciliation of net cash flow to movement in net debt

	2005 £'000	2004 £'000
Increase/(Decrease) in cash in the year	21,889	(3,698)
Cash inflow from loan from group undertaking	-	(18,714)
Change in net debt resulting from cash flows	21,889	(22,412)
Other non-cash items:		
Waiver of loan from group undertaking	149,524	-
Exchange movement	(3,326)	11,969
Movement in net debt in the year	168,087	(10,443)
Net debt at 1 January 2005	(159,730)	(149,287)
Net debt at 31 December 2005	8,357	(159,730)

18 Analysis of net debt

	2004 £'000	Cash flow £'000	Other non- cash changes £'000	Exchange movement £'000	2005 £'000
Cash on restricted deposit	-	800	-	-	800
Cash at bank and in hand	6	10,629	-	-	10,635
Overdraft	(13,663)	10,460	-	125	(3,078)
	(13,657)	21,889	-	125	8,357
Amounts owed to group undertakings	(146,073)	-	149,524	(3,451)	-
Total	(159,730)	21,889	149,524	(3,326)	8,357

19 Financial commitments

At 31 December 2005 there were annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings	Other	Land and buildings	Other
	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Within two and five years	-	424	-	-
After five years	714	-	714	-
	714	424	714	-

20 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 2005 £'000
B.A.T. (Westminster House) Limited and its fellow group undertakings	Significant shareholder	Total sponsorship income	24,045 (2004: 21,500)	Nil (2004: Nil)
		Purchase of goods/services	139 (2004: 619)	(10) (2004: (443))
		Sale of goods/services	1,995 (2004: 2,434)	211 (2004: 100)

21 Capital commitments

The company had capital commitments of £7,056,000 at 31 December 2005 (2004: £nil).

22 Ultimate parent company and controlling party

At 31 December 2005 and the date of this report the directors regarded Honda Motor Co Ltd, a company incorporated in Japan as the ultimate parent company and the controlling party.

According to the register kept by the company, Honda GP Holdings Limited had a 100% interest in the equity share capital of Honda GP Limited at 31 December 2005, and as such was the company's immediate parent company.