

FOCUS: BUSINESS PROGRESS IN ASIA



Indonesia



Vietnam



Indonesia



Vietnam

Business Progress in Asia

For nearly a decade, Honda has organized its business activities into five regional operations in Japan, North America, Latin America, Europe, and Asia/Oceania with the goal to be more customer-focused, flexible and efficient. Among these regions, our business in Asia has recently become even more significant for Honda. As a result of the remarkable economic growth in China, in April 2003, we established our sixth Regional Operation in China.

In fiscal 2003, operating income in the segment of “Other regions” including Asia grew by approximately 50% to ¥61.0 billion. In addition, since the majority of our business partners in Asia are joint-venture companies, their financial performance is included in Honda’s equity in income of affiliates. The Asia/Oceania region contributed about 80% of the Company’s equity in income of affiliates of ¥61.9 billion during fiscal 2003.

As a result of the relatively higher rate of economic growth in the Asian region, the trend towards motorization has advanced and the market for motorcycles and automobiles is expanding rapidly. However, considering the large populations in Asian markets and the still relatively low ownership ratios, we believe there remains a significant amount of latent

demand. In the growing Asian market, Honda should be able to take advantage of its strengths to bring joy to its customers and maintain solid growth.

Honda’s strength in the Asian region lies in our unique business structure, which combines the two businesses of motorcycles and automobiles. While the Asian region is experiencing dramatic economic growth, there are many people there who cannot afford an automobile or motorcycle. Through its high quality, yet reasonably priced motorcycles, Honda has played a leading role to expand demand. In addition, by manufacturing in the Asian region, we have been able to respond quickly to meet the needs of the market, while establishing a high quality and competitive supplier network through various technological collaborations with our vendors.

In short, a small investment in the motorcycle business has enabled us to put down deep roots in the local community with minimal risks, and to learn about the customers, society, industry, and market in this region. This, in turn, has facilitated the smooth start-up of our automobile business in Asia, which represents a larger investment.

Highlights of Honda’s business strategy in Asia excluding Japan are as follows.

Motorcycle Business

The motorcycle market in Asia, notably in the ASEAN region, suffered a substantial decline immediately following the currency crisis in 1997. However, the market soon experienced a rapid recovery. Specifically, from 1998 to 2002, overall demand for motorcycles in the major seven countries of India, Indonesia, Thailand, China, Malaysia, the Philippines, and Vietnam expanded by about 75%.

By making full use of our production technology and product development capabilities, Honda has been able to lead the expansion of market demand through products, which reflect customer needs for excellent durability and economy, while cultivating the “latent demand” of customers who previously were not able to afford a motorcycle.

Following is a summary of the market situation and Honda’s business growth in the major regions.

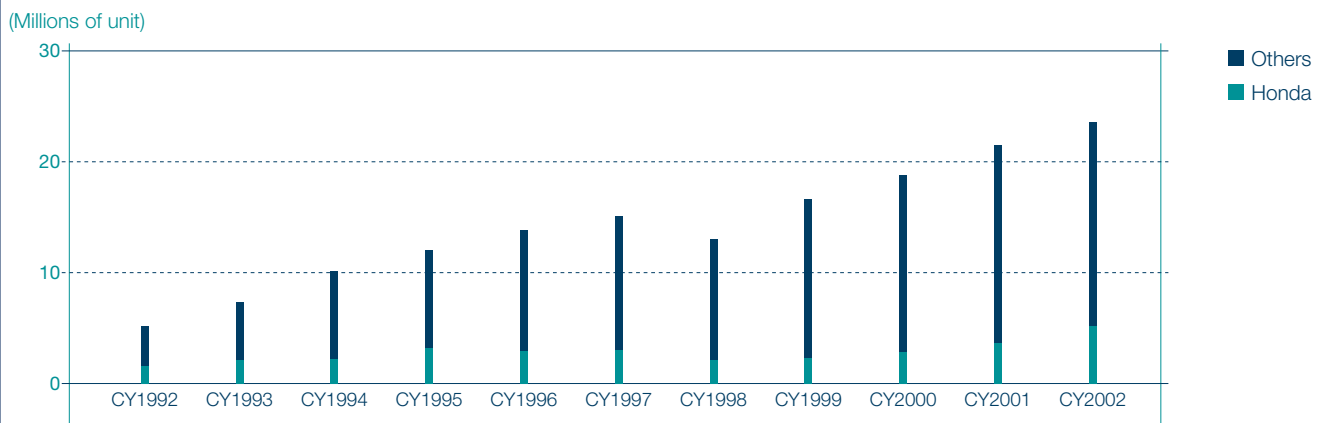
ASEAN REGION

Looking at the motorcycle ownership rates in each of the ASEAN countries, there still appears to be a very large amount of latent demand. In Taiwan, where economic development is one step ahead of the rest of Asia, there already is one motorcycle owned for every two people. By comparison, in the Philippines there is one motorcycle for every 63 people, in Indonesia one for every 15 people, in Vietnam one for every seven people, and in both Thailand and Malaysia one motorcycle for every four people. Further, analyzing the ownership of motorcycles by household income, in Thailand, 6.4 million households representing 38% of the total, do not have a motorcycle. In Indonesia, 40 million households, representing 86% of the total, do not have a motorcycle.

Honda’s strategy is to cultivate the latent demand in these areas by launching new products with affordable prices as a result of cost-cutting efforts.

Looking at major markets, in Thailand, we have successfully launched several popular models like the Wave100, Dream 125

Asian Motorcycle Market (India, Indonesia, Thailand, China, Malaysia, Philippines and Vietnam)



and Wave 125. Thanks to these models, in 2002, motorcycle unit sales reached the record of 966,000 units, or an increase of 42% from a year ago. In Indonesia, due to favorable sales of our mainstay models Supra and Legenda, unit sales in 2002 totaled 1,430,000 units, up 58% from last year. In the future, we will continue efforts to increase Honda customers through marketing products that meet local needs.

Diffusion of Motorcycles in Asia

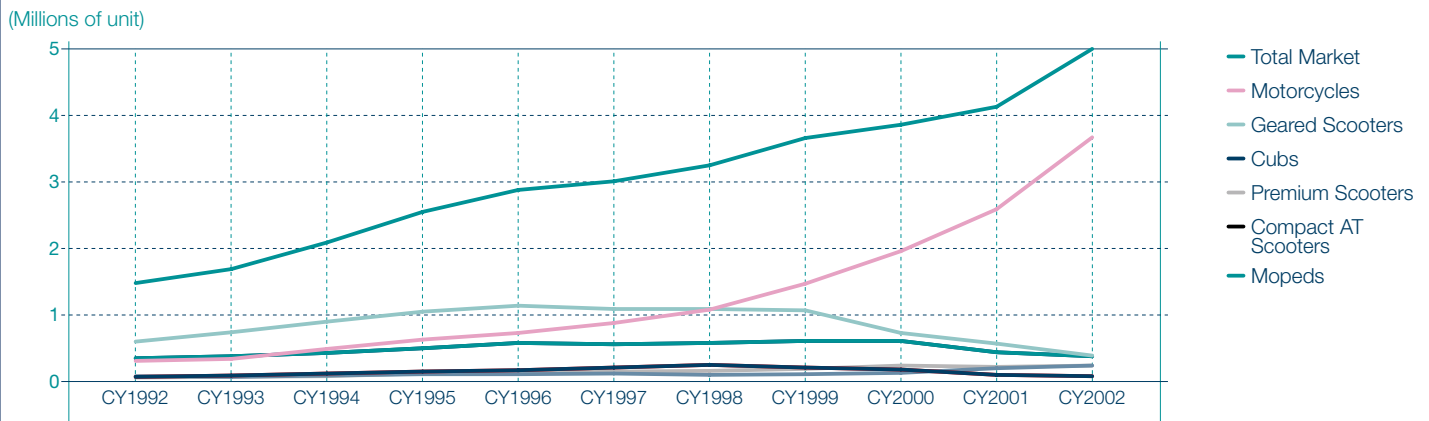
	Units in use (Thousands)	Diffusion rate (persons/unit)
Philippines	1,220	62.7
Indonesia	13,560	15.4
Vietnam	10,000	7.3
Thailand	14,500	4.3
Malaysia	5,610	4.2
Taiwan	11,730	1.9

Source: Honda

INDIA

The motorcycle market in India has about tripled in size over the past 10 years. In 2002, industry demand totaled 5 million units, making India the second largest market in the world following China. India has achieved steady growth in the global economic framework following economic liberalization in 1992 and membership in the WTO in 1994. Western-style culture has entered the country while the old traditions have remained intact, and people's lifestyles have been rapidly diversifying. Until around 1998, locally manufactured two-cycle scooters with gears dominated the market. However, many customers supported the Splendor motorcycle launched in 1994, which is manufactured by the joint venture company Hero Honda Motors Ltd. They also came to appreciate new types of scooters, such as the Activa and Dio manufactured by Honda's wholly-owned subsidiary Honda Motorcycle and Scooter India (Private) Ltd.(HMSI). In 2002, combined unit sales of the two companies totaled 1,814,000 units, consisting of 1,680,000 units sold by Hero Honda Motors sales and 134,000 units by HMSI.

Indian Motorcycle Market



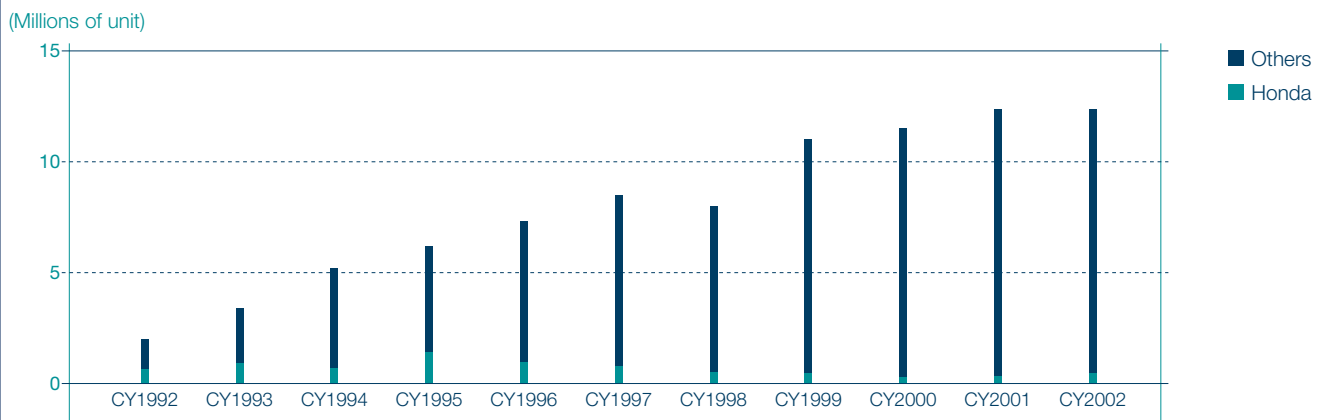
We believe that the motorcycle market in India will continue to expand for a while, due to rising income levels accompanying economic growth and the still developing transportation infrastructure. Honda expects that the motorcycle market in India will grow to the 10 million-unit level, almost equivalent to China. Honda will continue the effort to provide a full line-up of motorcycles and scooters from Honda group companies, in order to meet the diversifying needs of our customers.

CHINA

The motorcycle market in China has been expanding steadily, in part because the country was not directly affected by the 1997 currency crisis. In 2002, total unit sales of motorcycles in China totaled 12,380,000 units. While the market is growing, hundreds of small and medium-sized local manufacturers were aggressively competing on price. In addition, Honda faced a greater challenge due to an increased number of counterfeit models made to resemble Honda products.

Within this market environment, in December 2001, aiming at providing our customers with attractive products, Honda established the joint venture company Sundiro Honda Motorcycle Co., Ltd., seeking to incorporate our partner's cost competitiveness and sales network with Honda's advanced technological expertise. In fiscal 2003, Honda's motorcycle unit sales in China rose steadily centered on this new joint venture company. Honda also started operations at a motorcycle research facility in Shanghai in April 2003, in order to quickly develop new products according to Honda's "market-in" approach.

Chinese Motorcycle Market



Automobile Business

In 1998, the automobile market in the Asia/Oceania region shrank 16% to 4,290,000 units. This decline proved temporary, as the market showed a gradual recovery. In 2002, the market reached 6,870,000 units, a record high for the second consecutive year.

ASEAN REGION

The automobile market in the ASEAN region has expanded continuously since it hit bottom in 1998. In 2002, the market rebounded to 1,310,000 units, close to the sales level before the currency crisis. Within this environment, Honda's automobile unit sales outperformed the growth of the market and totaled 91,000 units in 2002.

Under the challenging circumstances surrounding the currency crisis, Honda managed the situation through various countermeasures, including the timely introductions of new products and increased cost competitiveness. Based on the diversifying needs of our customers, Honda launched new models such as the City, Civic, Accord, and CR-V. Honda also greatly improved

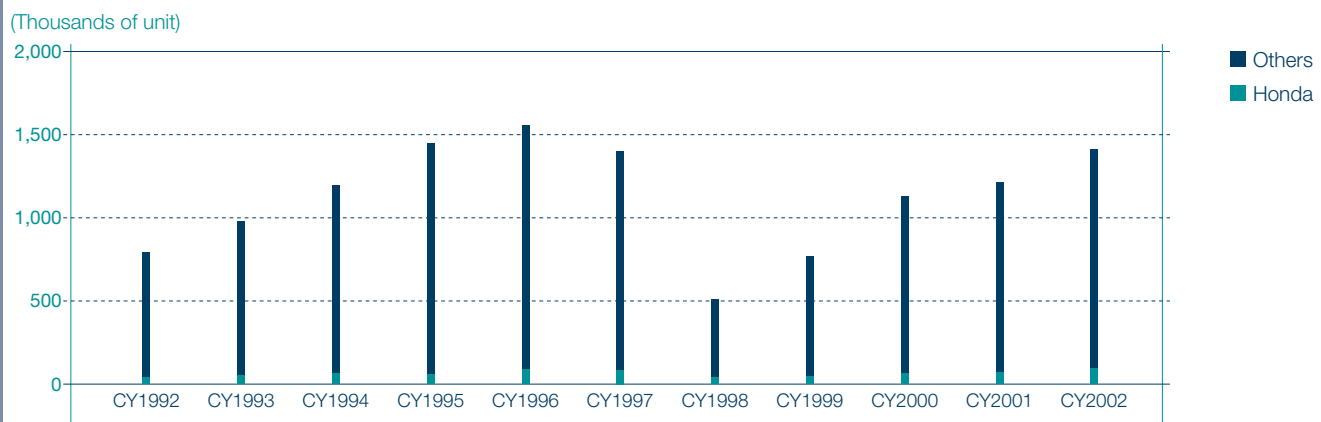
its cost competitiveness. Making active use of trade agreements within the Asian region, such as the AICO (ASEAN Industrial Cooperation) and the CEPT (Common Effective Preferential Tariff), we raised our local procurement ratio and "inter-group complementary supply ratio".

The third measure we adopted was to establish an organization that ensures rapid decision-making, coordinating Honda's entire business resources in the areas of development, manufacturing and sales. As a part of this effort, the automobile businesses in Malaysia, Indonesia, the Philippines, and Thailand are now managed by Honda subsidiaries. In the ASEAN region, as in other regions, Honda intends to expand its business by introducing products that meet local market needs and improving cost competitiveness.

CHINA

Honda began its automobile business in China in 1994 with the establishment of a joint venture parts manufacturing company called Dongfeng Honda Auto Parts Co., Ltd. Today, our automobile business in China is centered on two joint venture companies; Guangzhou Honda Automobile Co., Ltd., which manu-

ASEAN Automobile Market (Thailand, Indonesia, Philippines, Malaysia and Vietnam)



factures and distributes automobiles, and Dongfeng Honda Engine Co., Ltd., which manufactures automobile engines. In 2002, the overall automobile market in China grew by 40% to 3,250,000 units, including 1,130,000 passenger cars. In 1998, Honda began its automobile business in China with an annual production of 30,000 units. In 2002, our annual production grew to 59,000 units. In short, Honda has made a dramatic growth with cumulative production of 150,000 automobiles in just four years.

We attribute Honda's strong auto sales in China to our marketing strategy. When we started our automobile business, the most important strategic issue was the selection of the target customers and the model to be produced within the annual capacity of 30,000 units. We launched the latest U.S. version of the Accord, targeting the affluent class that emerged along with the reforms and market liberalization that were taking place in China. And, our sales expanded steadily as the Chinese economy developed.

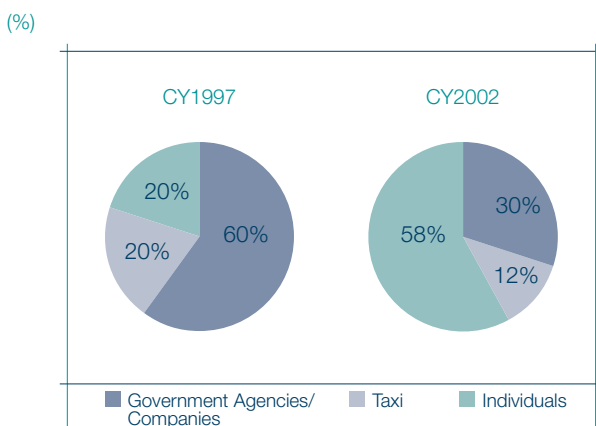
At the same time, over the past few years the profile of automobile users in China has changed significantly along with the expansion of the automobile market. Previously, the main users

included government agencies and offices, foreign companies and taxi services. Individual users accounted for only 20% of the total. In 2002, however, the percentage of individual users grew sharply, to 58%. When individuals became the majority customers, after-sales service such as maintenance became more important.

Honda has sought to establish a sales network to quickly respond to this change with the focuses on (1) automobile sales, (2) after-sales service, (3) supply of parts, and (4) the provision of sales information. We consider the establishment of this sales network as one of the key factors of Honda's expanding automobile business.

In addition, Honda's concept and vision of manufacturing have been shared among our local partners and associates, which we believe is another key aspect of our growth. This includes the importance of the activities to focus on high quality products at the factory. Further, we have developed our business with a close relationship with the local community. For example, we have promoted a "green factory" approach by applying sewage processing standards at our factories that are stricter than the local requirements.

Profile of Passenger Car Users in China



Chinese Passenger Car Market

