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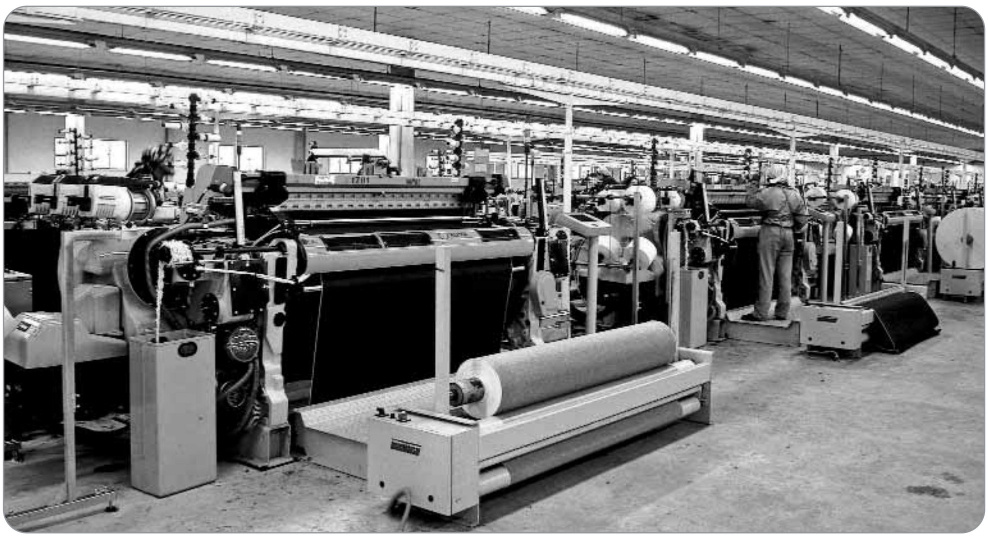


CORPORATE PROFILE

LNDC Act

The Lesotho National Development Corporation (LNDC) is a parastatal body established by the LNDC Act No. 20 of 1967. The Act was amended through the LNDC Act No. 13 of 1990 which became effective in June 1993, and further amended by LNDC (Amendment) Act No. 7 of 2000.

LNDC mandate

The essential mandate of the Corporation as stipulated in section 4 subsection 1 of the LNDC Act No. 13 of 1990 reads thus:

> ***"The purpose of the Corporation is to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho."***

It is the Corporation's key responsibility to contribute to national economic growth and development. The LNDC carries out this role by promoting Lesotho as an attractive and a preferred investment location to both foreign and local investors. LNDC offers a wide range of investment supportive services. These include serviced industrial sites; factory buildings; business support services; after care services; financial assistance on a selective basis; and where possible, selective limited equity participation in projects considered to be of strategic importance to the economy.

Capital Structure

In 2004/05 the Corporation's authorised share capital was M250 million. Fully paid-up share capital was M128 million, comprising M128 million ordinary shares.

Organisation Structure

During the year under review the Corporation's organisational structure stood as follows: Investment Promotion Division; Entrepreneurial Development Division; Operations Division; Asset Management Division; Finance Division; Internal Audit Division; Human Resources Division; and Legal Division. The LNDC is managed by the Chief Executive Officer supported by the Executive and Management teams. The Chief Executive Officer reports to the LNDC Board of Directors. The full structure is presented in Fig. 1 below.

Reporting

Section 19 (1) of the LNDC Order requires the Corporation to submit a report on the status of its affairs at the end of every financial year. It is in accordance with these statutory requirements that the LNDC presents this edition of its Annual Report for the financial year April 1, 2004 to March 31, 2005. The report reviews the Corporation's activities and achievements over that period. As usual, the report includes Group Audited Financial Statements approved by the Board. The Group Financial Statements constitute a consolidated performance by the Corporation, its subsidiary and associate companies. The LNDC's stake in subsidiary companies ranges between 51% and 100%, and between 20% and 50% in associate companies.

CORPORATE VISION

The Corporation's long-term vision is to build a stable and sustainable industrial and commercial base in Lesotho. The vision entails the following objectives:

i) To develop a thriving and profitable manufacturing and processing industry, in tandem with a strong and growing modern commercial sector to optimise job creation;

ii) To support and develop entrepreneurship;

iii) To ensure optimal and efficient utilisation of local resources;

iv) To turn LNDC into a quality service delivery and client oriented organisation.

v) To turn LNDC into a financially strong and reliable investment vehicle for its shareholders.

The expected outputs from this vision include:

a) Generation of new investment projects and expansions especially in labour intensive industries.

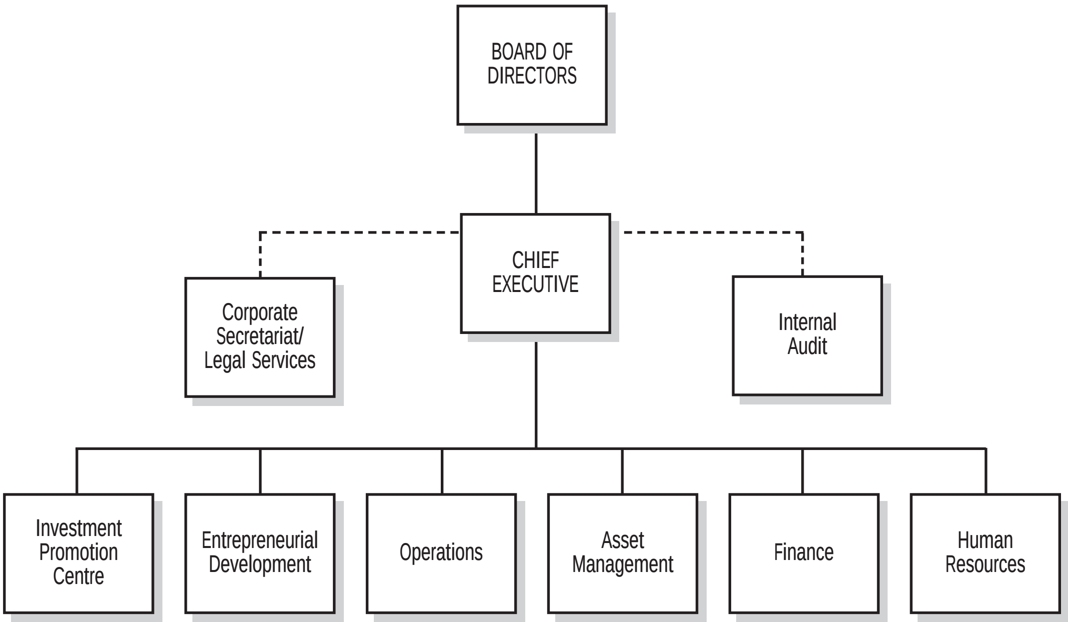
b) Employment generation and improved living standards.

c) Enhancement of Lesotho's competitiveness.

d) Increased participation of indigenous business in the economic mainstream.

LNDC ORGANISATIONAL STRUCTURE

2004/2005



LNDC BOARD OF DIRECTORS

end of financial year 2004/2005

CHAIRMAN

Mr D M Rantekoa
Principal Secretary; Ministry of Trade and Industry, Cooperatives and Marketing

MEMBERS

Ms L Khechane
Ministry of Finance and Development Planning

Mrs M Motselebane
Ministry of Agriculture and Food Security

Mr J T Metsing
Minstry of Tourism, Environment and Culture

Mr P Mokhesi
Private Sector

Dr M Ramatlapeng
Private Sector

Mr O S M Moosa
Lesotho Chamber of Commerce and Industry

Mrs A S Mokorosi
Lesotho Manufacturers Association

Mr T Mochekele
Lesotho Consumer Organisation

CHIEF EXECUTIVE

Mrs S M Mohapi *(up to 30/07/04)*
Lesotho National Development Corporation

Mr Peete Molapo *(w.e.f. 01/08/04)*
Lesotho National Development Corporation

CORPORATE SECRETARY

Mr C T Poopa

POSTAL ADDRESS

Lesotho National Development Corporation
Private Bag A96
Maseru 100
Lesotho

HEAD OFFICE

Development House
Kingsway Road
Maseru 100
Telephone:266-22 312012
Telefax: 266-22 310038
E-mail: info@lndc.org.ls
Website: www.lndc.org.ls

AUDITORS

PMB
PO Box 1252
Maseru 100
Lesotho

BANKERS

Lesotho Bank (1999) Limited
PO Box 1053
Maseru 100
Lesotho
Telephone: 266-22 315737

LNDC EXECUTIVE & MANAGEMENT TEAM

end of financial year 2004/2005

EXECUTIVE TEAM

Mr Peete Molapo
Chief Executive Officer *(w.e.f. 01/08/04)*

Mr Motebang Mokoaleli
Head, Investment Promotion Centre

Mr Mokhethi Shelile
Head, Entrepreneurial Development Division

Mrs 'Mathabo Klass
Head, Operations Division

Mr Lebohang Mofammere
Head, Asset Management Division

Mr Sam Mphaka
Head, Finance & ICT Division

Ms Lucy Mataboe
Head, Human Resources Division

Mr Clark Taelo Poopa
Head, Legal Division & Corporate Secretary

Ms Teboho Lekalakala
Head, Internal Audit Division

MANAGEMENT TEAM

Mrs Lesa Makhoalibe
Public Relations Manager

Mrs Tšepang Sekhesa
Manager, Investment Promotion Division

Mrs 'Mampho Mahase
Senior Projects Manager

Ms Marina Maloi
Projects Manager

Ms Fumane Maema
Projects Manager

Mr Molupe Mohale
Projects Manager

Mr Justice Sello Ts'ukulu
Industrial Relations Manager

Mrs Nthabiseng Posholi
Senior Accountant

Mr Litlhokoe Daniel Mohlomi
Information Technology Manager

Ms 'Majane Lesala
Senior Internal Auditor

STATEMENT BY THE CHAIRMAN

D M Rantekoa
Chairman

It is my pleasure and honour to present on behalf of the LNDC Board of Directors, this Annual Report covering key activities of the Corporation for the financial year ended 31st March 2005.

My statement will highlight some of the major economic and trade related developments that took place during the year. This will be followed by an analysis of how these changes impacted on LNDC performance and the policy responses that were introduced during the year.

During the review period LNDC generated 4 new foreign direct investment (FDI) projects with a total investment value of M7.39 billion. A total of 237 new jobs were created by these new projects. LNDC attaches a great deal of importance to local private sector development as an engine of economic growth. During the review period LNDC developed networks with international funding institutions in order to support the private sector. The Corporation continued its participation in business linkage programme in order to foster partnerships with the local garment industry. In addition LNDC engaged the services of two consulting firms, namely, The Whitaker Group (TWG) and GT Ventures to promote local private sector products in the US.

The performance of the garment industry was generally strong during the year under review. At the end of 2004, the industry accounted for 50% of the manufacturing sector output. At this level the industry was the single largest contributor to the manufacturing sector. The garment industry registered a 14% growth during the reporting period. Garments exports ascribed only to the African Growth and Opportunity Act (AGOA) surged to US$ 456 million by end of 2004 calendar year compared with US$400 million the previous year. Jobs generated by the LNDC leasehold portfolio peaked at 48 564 in March, 2004 compared with 39,770 jobs in 2003.

Unfortunately, by the end of March, 2005 these positive developments were reversed when the industry lost 7069 jobs. The decline in the employment level was attributable to two major developments that shook the textile sector. Firstly, the delayed extension of the 3rd country fabric sourcing provision under AGOA which was due to expire on 30th September, 2004. Secondly, the expiry of the Multi-Fibre Agreement (MFA) on 31st December, 2004. The delayed extension of the 3rd country sourcing provision created uncertainty that resulted in buyers scaling down their orders in AGOA eligible countries like Lesotho. This was further exacerbated by expiry of the MFA when buyers, in anticipation of this scenario, placed more orders in countries like China and India. The appreciation of the loti against the US dollar which commenced in November, 2002 also had a significant negative impact on garment exports.

In response to the above challenges, the Government had to dispatch a mission to the US to negotiate strategies that the country could embark upon to stay competitive. This mission was very successful in that important feedback was received from brands and buyers as well as renewal of relationships and new commitments. In anticipation of these developments, the Prime Minister had also in July, 2004 established the Inter-Ministerial Task Team (IMTT) to work out a programme that would inform the Government and other stakeholders on critical measures that had to be taken to weather the storm. This initiative proved to be very useful as it provided a very positive impression on brands and buyers that Lesotho is strongly committed to improving the competitiveness of its garments manufacturing industry.

As a consequence of these developments, the Corporation also initiated the development of a corporate blueprint to reposition itself to the new challenges. The strategic objectives of the blueprint were:

- The retention and protection of the existing garment industry
- The diversification of export products and markets
- The integration of the garment manufacturing industry

STATEMENT BY THE CHAIRMAN

(continued)

- Improvement of productivity and time-to-market
- Development of supporting infrastructure
- Enhancement of institutional capacity within LNDC.

It is expected that the successful implementation of the blueprint will put Lesotho's garment manufacturing industry on a sustainable growth path.

During the year under review, the LNDC board appointed The Whitaker Group and GT Ventures both trade and investment consultants from the US to promote and solicit trade and investment leads in the US market. This measure was taken in order to ensure that Lesotho maximises potential benefits under AGOA.

Creation of a conducive investment climate for both domestic and foreign investors is one of the main priorities of Lesotho government. In January, 2005 the Government in conjunction with the United Nations Conference on Trade and Development (UNCTAD) initiated a process to develop Lesotho's foreign direct investment (FDI) law and competition policy. Certain aspects of Lesotho's trade related laws were identified as impediments to inward investment as they were regarded to possess uncompetitive elements. Accordingly, it was agreed that review of laws such as Companies Act 1967, Licensing laws, Land and Tax laws as well as Import and Export laws should be expedited. The development and finalisation of Lesotho's FDI law and competition policy will provide the required comfort to investors to establish FDI projects in Lesotho. These instruments will provide a legal and regulatory framework on FDI entry into Lesotho as well as the treatment and protection of such projects. The assurances that are provided by these two policy initiatives have a high probability to boost LNDC success rate to attract and retain new FDI projects.

The Board approved a number of important policies, among them the information and communication technology (ICT) policy. The medical aid scheme policy was also reviewed and refined.

A lot was done to improve the corporate governance of the Corporation. An Investment Committee was established with the purpose of providing assistance to the Board in the review and oversight of the Corporation's key investment objectives, strategies and policies. The establishment of the Investment Committee followed the approval by the Board on the setting up of the Audit and Risk Management Committee, the Remuneration Committee and the Construction Committee in the previous year. Terms of reference for the four Committees of the Board were finalised and approved by the Board in December, 2004

With the expiry of the MFA and liberalisation of global trade by the WTO, Lesotho faces a number of daunting challenges. However, the measures that the Government is taking are positive and encouraging. Through its blueprint and strategic plan, the LNDC is also positioning itself to acquire the requisite capacity to face the challenges.

The Corporation recorded a net profit of M 8,071 million compared with M15,267 million in 2003/04. Its balance sheet grew by 5.46% from M438,572 million in 2003/04 to M462,503 million in 2004/05.

I draw this statement to a close by once again acknowledging contributions of the LNDC Board, Management and Staff, for their efforts in pursuit of LNDC mandate. I also acknowledge contributions by partners in development and other key stakeholders who have been instrumental in assisting LNDC achieve this progress.

D M Rantekoa

Chairman

CHIEF EXECUTIVE'S REPORT

General

2004/05 was a year of mixed fortunes for the textile and garment manufacturing industry which happens to be largest industry in the country. The year started very well but did not end well. On the positive side, it was the year when the industry surpassed the public sector for the first time on employment creation. Employment within the LNDC leasehold portfolio (comprising mainly textile and garment factories) for the first time reached 48 418 against 36,555 in the public sector. The growth in employment was a result of a strong demand from US garment importers which then led to expansion in capacity utilisation at factory level. Consequently, Lesotho garment exports reached a record high of US$456 million.

Performance could have been even better had it not been of the following factors. First, 2004/05 was marked by the strengthening of the South African rand to which the Lesotho currency (the loti) is fully pegged and at par. To a large extent this phenomenon rendered Lesotho's exports relatively expensive and attenuated what could have otherwise been an exceptional performance. Second, 2004/05 was also a year that the 3rd country sourcing provision of AGOA was going to be reviewed. This caused uncertainty among US buyers who then decided to reduce their orders to Lesotho as part of risk management. Third and very important was the expiry of the Multifiber Agreement (MFA) in December 2004. After years of preferential access to major markets like the US and EU for least developed countries like Lesotho, the expiry of MFA meant that other countries which had hitherto been barred to export to the US and EU would now be allowed to export quota free. Towards the end of 2004/05 many US retailers decided to reduce their orders to Lesotho and placed them in more competitive markets like China and India in anticipation of the MFA expiry.

As part of ensuring that Lesotho prepared itself for the hard times ahead, the Honourable Prime Minister established the Inter-Ministerial Task Team (IMTT) to assess the strengths and weaknesses of the textile and garment industry, develop strategies on how best the industry could be protected from the strong winds of globalisation and to minimise the impact on employment. As a sequel of this initiative, in January 2005 the Minister of Trade, Industry, Marketing and Cooperatives (MTICM) led a mission comprising representatives from industry, labour and government to the US for meetings with major buyers of Lesotho exports. The mission held meetings in Washington with the US Administration, and in San Francisco, New York and Atlanta with major US brands and buyers. The mission was a great success in that it gave Lesotho an opportunity to engage with US buyers and brands on the concerns that the latter had about Lesotho post MFA. Also very important was that Lesotho's name as a destination of choice for sourcing was maintained on the US buyers' and brands' radar screen. The mission was also about the strengthening of relationships between Lesotho and US business.

In view of the impending problems and the negative effect of the strength of the Loti on the cash flow of industrialists, LNDC took a decision to freeze escalation of rentals for factory buildings. LNDC also introduced new measures to monitor performance of the industry in order take proactive corrective measures whenever a need arises.

A. OPERATIONAL ACTIVITIES

Investment Promotion

During the review year LNDC continued to make important positive strides to build industry in Lesotho. The most important milestone was the commissioning of the first denim fabric mill in Lesotho in July 2004. The mill has been established at the cost of M140 million maloti. This has so far been the largest investment that Lesotho has ever scooped in its nascent textile and garment industry. This investment is not only strategic but a boon to the industry that will now develop a critical supply chain. The size and nature of the investment as well as the vertical integration it will bring to the industry is expected to bolster Lesotho's image abroad as an investment destination of choice.

The number of jobs created by new projects during the year stood at 237 and were substantially lower than last year's figure of 1 966. The drop in new jobs created during the year could be attributable to two factors. Firstly, there were only 4 new FDI projects which were implemented during the year as compared to 7 in 2003/04. Secondly, 3 of the 4 new projects were in electrical appliances assembly, soap manufacturing and garment printing. By their nature these 3 projects are not labour intensive. However, they are vital for supply chain creation and diversification on the manufacturing industry.

Despite lower new jobs created during the year, the LNDC leasehold portfolio recorded the all time highest level of jobs at 48 418 due to strong order books. This situation is expected to improve even further with the entrance of the denim fabric mill that is expected to generate 700 jobs at full capacity.

Entrepreneurial

Development of a powerful indigenous private sector in Lesotho is one of the primary objectives of LNDC. This is in line with the government policy of broad based economic growth driven by the private sector. The Corporation promotes the local private sector through facilitation of joint ventures, vertical integration, mobilisation of financial resources and technical assistance. A dedicated unit has been established since 2000 to aggressively drive this ideal.

During the year under review LNDC introduced 35 Basotho owned businesses to NORSAD, a SADC and Scandinavian countries initiative established to finance SADC based private sector projects.

Out of three projects that submitted business plans, one secured financial assistance amounting to M3.0 million. Although donors often have certain specific demands that they usually impose on their assistance, one main reason for small businesses to fail to get financial assistance is their inability to present well written business plans. The latter was the main reason why a good number of projects did not make it. The LNDC is working hard to address this problem in order to ensure that Basotho owned businesses maximise the benefits of financial and technical assistance offered by international development partners like NORSAD.

Another development partner that LNDC worked closely with during the year was the Centre for the Development of Enterprises (CDE) established by the European Union (EU) to assist small and medium enterprises (SMEs) in developing countries with capacity building. During the reporting period LNDC together with some locally owned companies attended a CDE meeting in Maputo, Mozambique where new arrangements were proposed to enhance delivery of services to the SMEs.

The Corporation also introduced more than 40 private sector companies to the Southern African International Business Linkages programme (SAIBL). SAIBL is a United States sponsored business linkages initiative. The linkages were achieved by promoting business relationships between local and international firms which could result in increased trade and investment flows as well as the transfer of technology. The business linkage programme effectively started in the last quarter of the year under review.

The LNDC is pursuing many other avenues through which the development of SMEs businesses can be assisted.

Operations

The portfolio of companies that the LNDC monitored stood at 66 in 2004/05 compared with 62 in 2003/04. The majority of companies, 49 in all, were in textile and garment manufacturing, 3 were in footwear, 1 in electrical appliances and electronics, while 2 were in embroidery, 2 in printing and packaging as well as 9 commercial operations that form LNDC equity portfolio. The total number of jobs created in 2004/05 was 48 418 compared with 45,664 in 2003/04. The increase in employment was a function of 4 new projects that commenced operations during the year as well as additional jobs that were created by existing companies due to strong orders as stated above.

In as far as exports were concerned their performance was the best at end of calendar year 2004. They increased by 14% to US$456 million compared with US$400 million in 2003/04. The good export performance was due to a relatively a strong demand from the US during a good part of the year. Towards the end of the year orders started to fall due to the uncertainty brought by the impending expiry of the MFA agreement.

In 2004/05 LNDC's equity portfolio consisted of 9 companies – 3 subsidiaries and 6 associate companies. One of the main developments during the year was the resuscitation of the Basotho Fruit and Vegetable Canners Company (BFVC), an LNDC subsidiary. The BFVC had not been operational since 1996 because of poor performance. The main reason for its reopening was that the government of Lesotho had provided some assistance in addressing the supply side constraints for its major inputs, namely, asparagus and peaches. A business partner had also been secured who would provide the critical inputs as well as the marketing of final products in European Union (EU) market.

CHIEF EXECUTIVE'S REPORT

(continued)

Loti Brick, an LNDC subsidiary that produces bricks continued to make losses. During the review year it posted a loss of M22 million cumulatively. The company has been slated for privatisation and the Privatisation Unit (PU) has been mandated to facilitate its privatisation.

As of the rest of the equity portfolio, performance was generally mixed with some posting quite good results especially those in food and beverages sector.

Asset Management

During the year under review the Corporation's total property portfolio comprised of 162 units compared with 148 in 2003/04. Industrial portfolio was the highest component at 85%. The commercial, office and residential portfolios shared the remaining 15%. The occupancy rate by various categories of the portfolio was as analysed below.

Commercial – The Commercial portfolio performed relatively well with the occupancy rate of 80%. The occupancy rate could have been much higher had it not been of a low take-off of retail office space at the newly constructed LNDC Centre Phase II. On the other hand office space was almost fully let with the occupancy rate of 98%.

Industrial – The industrial portfolio occupancy rate jumped marginally from 97% the previous year to 98% in 2004/05. At this level performance was not bad either, particularly against the background of the uncertainty surrounding the extension of the 3rd country sourcing provision of the AGOA and expiry of MFA agreement. Because of that uncertainty many industrialist were not sure about prospects for expansion. Now that the extension has been effected it is expected that the occupancy rate will reach its maximum.

Residential – Although relatively small, comprising only 5% of the total portfolio, residential occupancy rate has year on year been very strong. As usual during the review year it was still at 100%.

The period under review saw the development of infrastructure services such as roads and water reticulations at the newly acquired Mohale's Hoek Industrial Estate which measures around 7 hectares. 29, 790 mÇ of factory space was also added to the industrial property portfolio in the reporting period.

In addition the Corporation developed Thetsane mini-shopping Centre to provide quality retail space.

The Corporation continues to address environmental issues as it supports environmentally friendly production. The Corporation embarked on 2 environmental related studies; feasibility study on the disposal of industrial sludge and feasibility study on the recycling of industrial waste water.

B. CORPORATE SERVICES

Human Resources and Administration

The review year was the year in which the Corporation developed its three year Strategic Corporate Plan covering 2004/05 – 2006/07. On completion of the plan the Human Resources and Administration Division embarked on the preparation of business functions, business processes and job descriptions.

In order to ensure that the Strategic Plan would be effectively implemented, the Division also initiated the process of developing a Performance Management System (PMS).

The Division facilitated recruitment of 2 senior officers during the year, namely the Investment Manager and Entrepreneurial Officer. The Corporation continued to invest in the development of its human resources. A total of 12 training programmes in the form of workshops, study tours, seminars and short courses were offered to staff members. Annex 1 provides details of the training activities in 2004/05.

Public Relations

The Corporation participated in a number of activities in 2004/05 with the purpose of enhancing its image and promoting Lesotho as an investment destination of choice. Among the most important ones can be mentioned the following:

Sharpening the Competitive Edge Conference

In collaboration with the Ministry of Trade and Industry, Cooperatives and Marketing and ComMark Trust, LNDC held a conference and trade expo to promote productivity of the apparel industry in Lesotho. The conference was held on 14 – 15 May 2004. The conference aimed to improve competitiveness and sustainability of the industry through:

- Productivity and Training
- Human Resources Management and Industrial Relations
- Compliance with customer Codes of Conduct
- HIV Aids in the Garment Industry.

Tour of the factories by the Right Honourable Prime Minister

LNDC arranged a guided tour of Nien Hsing group of companies for the Right Honourable Prime Minister, Cabinet Ministers, Assistant Ministers and Principal Secretaries. The purpose of the tour was to familiarise the policy makers with the operations of the various firms within the group. The operations range from spinning, denim fabric production and denim manufacturing

Visit to Lesotho by US Trade Secretary Mr Robert B Zoellick

During his visit to Lesotho on 11 – 13 December 2004, the US Trade Secretary was taken on a guided tour to Formosa Textile Company, Lesotho's first and only denim fabric and yarn spinning milling company at the Thetsane Industrial Estate. He mentioned that the reason he visited Lesotho as the first cabinet level US government official was because of the country's economic progress and its strong trade links with the US.

Corporate Social Responsibility

On the corporate social responsibility side, LNDC donated 15 computers to 15 high schools in recognition of their outstanding performance in the Cambridge Overseas School Certificate (COSC).

The Corporation also made several financial contributions to disabled groups, the elderly, AIDS awareness campaigns, youth and awards for outstanding students. The Corporation also paid M11 284 to the Water And Sewage Authority (WASA) for reconnection of water to the orphanage under the care of Ms Mavis

Mochochoko. Supply of water to the orphanage had been stopped due to long standing payment arrears.

In 2004/05 the focus of the Corporation's public relation function was mainly on image building and marketing of Lesotho as an investment and sourcing destination of choice. The Corporation took full advantage of events that had the potential of promoting the good name of the country.

One such event was 'Sharpening the competitive edge conference' that was organised by the MTICM and held at the Lesotho National Convention Centre on 14 – 15 May 2004. LNDC took an active part in this event whose main themes were:

- Productivity and training
- Human resources management and industrial relations
- Compliance with customer codes of conduct and
- HIV Aids in the garment industry.

One important event that also took place during the review year was the sod turning ceremony that marked the construction of Emergency Fire Station at the Thetsane industrial estate. This was the first public-private sector project of its kind in the garment industry. LNDC considers this as a strategic project as it also provides a critical linkage with the rest of the industry. Investment in the project is expected to be M3 million and funded fully by the private sector.

C. FINANCIAL PERFORMANCE

Finance

Operating Income

Group

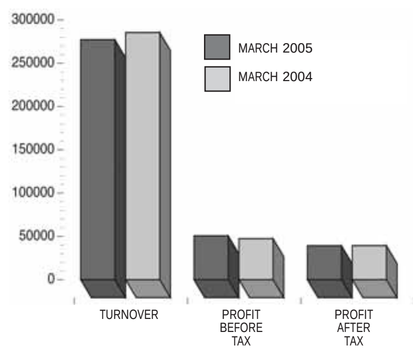
The Group turnover (T/O) dropped from M285.4 million in 2003/2004 to M277.2 million in 2004/2005. Major factors for the drop were the slow-down in the economy, the strengthening of the Loti that negatively affected export receipts of the industrialists and the drop in orders later in the year due to the expiry of MFA the end of 2004.

Profit before tax (PBT) increased by 6.9% from M47.4 million to M50.6 million. The increase in the PBT was the result of efficient control and management of expenses by the Group. However, profit after tax (PAT) decreased by 0.6% from M39.4 million to M39.2 million. The major reason for the decline on the PAT was the assessed tax of M2.0 on the holding Corporation, LNDC, for the years 2000/2001 to 2004/2005.

As a result of the increase in the PBT for the year, reported return on capital employed (ROCE) increased from 7.9% to 8.2% in 2004/2005. Also as a result of the decrease in PAT, earnings per share (EPS) decreased from 31 Lisente to 30 Lisente.

Figure 1 below summaries the Group's performance for the year and status at end of year.

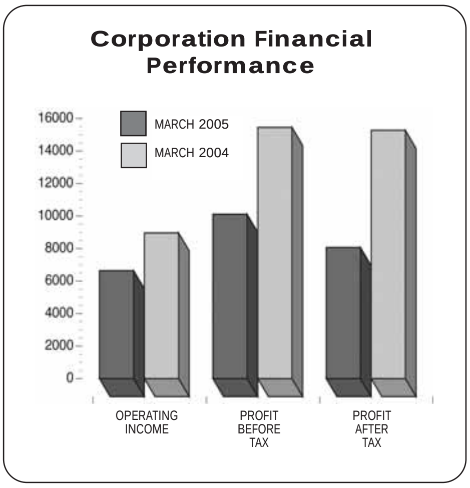
Group Financial Performance



Corporation

The Corporation's operating income (O/I) fell by 25.8% from M8.6 million to M6.6 million. The decrease was primarily attributable to the freezing of rental escalation for the textile industrialist in an attempt to assist them to cope with the impact of the impending expiry of MFA and the strengthening of the Loti against the US Dollar. It was also attributable to increased vacancy rate that was caused by closure of some textile factories later in the year. Reported PBT for the year dropped by 34.6% to M10.1 million compared with M15.5 million in 2003/2004. The contributing factors for the fall were the same as mentioned above for the drop in operating income. Reported PAT for the year fell by 47.8% to M8.1 million from M15.5 million in 2003/2004. Two major reasons accounted for the decrease in the PAT. One was the assessed tax of M2.0 million and others were the strengthening Loti and expiry of MFA as mentioned above. Similarly, the ROCE and EPS fell from 3.5% to 2.2% and from 12 Lisente to 6 Lisente respectively.

Figure 2 below depicts the above highlighted Corporation's performance for the year and status at the year-end.

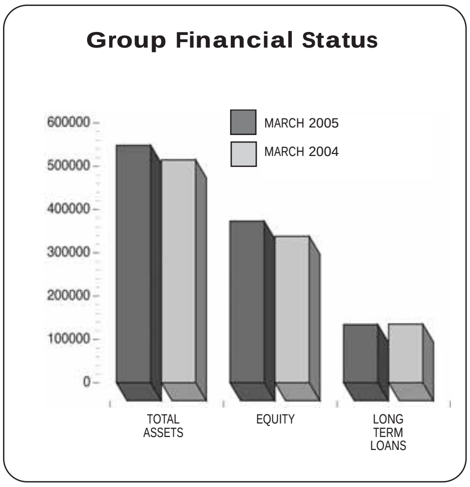


TOTAL ASSETS, EQUITY AND LONG TERM LOANS

Group

The Group's total assets grew by M16.8 million or 2.8% from M599.2 million in 2003/2004 to M616.0 million in 2004/2005. The primary driver of the growth was the profit generated during the year. The assets were financed by the shareholders' equity. The shareholders' equity increased by M34.5 million or 9.1% from M379.4 million to M413.9 million. The increase was attributable to the profit generated during the year. The long term loans (LTL) decreased by M2.0 million or 1.5% from M131.8 million to M129.9 million. The decrease was attributable to repayments made during the year.

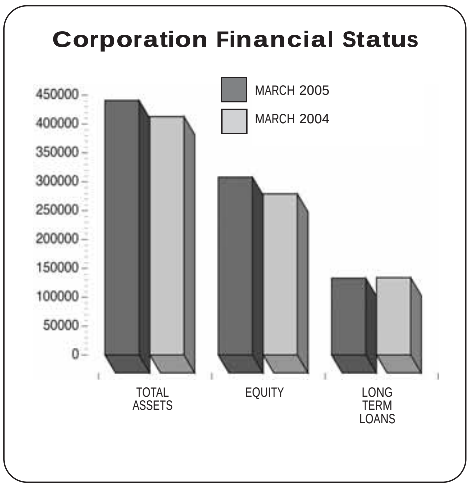
Figure 3 below illustrates the situation.



Corporation

The profit generated during the year was the primary financier of growth of M23.9 million or 5.5% (M438.6 million in 2003/2004 to M462.5 million in 2004/2005) in the Corporation's total assets. The realised profit also contributed to shareholders' equity increasing by M28.9 million or 10.4%. Long term loans were repaid well during the year resulting in the drop mentioned above.

A pictorial presentation of the above status is hereunder shown in Figure 4



CHIEF EXECUTIVE'S REPORT

(continued)

Ratios analysis

Table 1	Group % Increase/ (decrease)	Group Increase/ decrease M'000	Group 31 Mar 2005 M'000	Group 31 Mar 2004 M'000	Corporation % Increase/ (decrease)	Corporation Increase/ decrease M'000	Corporation 31 Mar 2005 M'000	Corporation 31 Mar 2004 M'000
Turnover/ operating income	(2.9)	(8 214)	277 182	285 396	(25.9)	(2 322)	(6 641)	(8 963)
Profit before tax	6.9	3 281	50 637	47 356	(34.6)	(5 342)	10 114	15 456
Profit after tax	(0.6)	(251)	39 189	39 440	(47.8)	(7 385)	8 071	15 456
Total assets	2.8	16 847	616 013	599 166	5.5	23 931	462 503	438 572
Equity	9.1	34 506	413 936	379 430	10.4	28 972	307 862	278 890
Long-term liabilities	(1.5)	(2 026)	129 852	131 878	(1.5)	(2 026)	129 852	131 878
Return on capital employed	4.0	0.3	8.2	7.9	(37.9)	(1.3)	2.2	3.5
Earnings per share (Lisente)	(0.6)	0.20	30.62	30.81	(47.8)	(5.8)	6.3	12.1

Conclusion

The Group's financial position as at 31 March 2005 was satisfactory with a growth of M16,8 million or 2.8% in total assets. The growth was financed by the profit after tax of M39,2 million.

ANNEXURE 1

NO	TRAINING PROGRAMMES	TRAINING INSTITUTION	PARTICIPANTS
1	Budget Managing and Reporting 2004	Excellante International	Accountant
2	Lesotho Apparel Industry Conference 2004	ComMark Lesotho	Operations,Entrepreneurial Development and Investment Promotion Centre staff
3	8th Southern African Internal Audit Conference	The Institute of Internal Auditors, South Africa	Senior Internal Auditor
4	Familiarization Programme for Officials of Investment Promotions Agencies 2004	Malaysia Industrial Development (MIDA)	Investment Promotion Manager & Investment Promotion Officer
5	Internal Auditor's Symposium	Centre for Accounting Studies	Chief Internal Auditor
6	Seminar on Employment and Labour Sector HIV and AIDS Strategic Plan	Ministry of Employment and Labour	Industrial Relations Manager
7	Workshop on Visual Basic for Access XP	CS Holding - South Africa	Information Technology Manager
8	Property Intermediate Programme	SAPOA	Asset Management Officer
9	General Workshop on Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS)	Bessie Global Management Practice - South Africa	Accountant
10	Formulating and Implementing Transparent HR Policies and Procedures	IIR Training	Head, Human Resources
11	Corporate Governance Workshop	Institute of Development Management (IDM) Lesotho	Head, Legal
12	Microsoft Publisher 2003 Level 1	New Horizon Computer Learning Centre	Public Relations Manager

FINANCIAL STATEMENTS

for the year ended 31 March 2005

Contents

Directors' Approval

The financial statements which appear on pages 29 to 48 were approved by the board of directors on 13 June 2005 and were signed on its behalf by:

DIRECTOR

DIRECTOR

REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL OF LESOTHO ON LESOTHO NATIONAL DEVELOPMENT CORPORATION AND ITS SUBSIDIARY COMPANIES FOR THE YEAR ENDED 31 MARCH 2005

We have audited the financial statements and group financial statements for the year ended 31March 2005 set out on pages 4 to 30. These financial statements are the responsibility of the Corporation's directors. Our responsibility is to report on these financial statements.

Basis of Opinion

We have conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. The audit included an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence that supports the amounts included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our auditing procedures were appropriate to enable us to express our opinion presented below.

Holding Corporation

The financial statements of the Corporation depict M4.5 million as a VAT debtor. This amount is currently being reconciled and cannot yet be justified.

Except for any adjustments which may be required from the matter referred to in the preceding paragraph, in our opinion, these financial statements fairly present the financial position of the Corporation at 31 March 2005 and the results of their operations for the year then ended, in conformity with generally accepted accounting practice and in the manner required by Lesotho National Development Order 1990.

Group

Except for any adjustments which may be required from the matter referred to in the preceding paragraph, in our opinion the financial statements fairly present the financial position of the Corporation and Group at 31 March 2005 and of the results for the year then ended in conformity with generally accepted accounting practice and in the manner required by the Lesotho National Development Order 1990.

L L Liphafa (Mrs)
AUDITOR GENERAL

STATEMENT OF GROUP ACCOUNTING POLICIES

1. PRINCIPAL ACTIVITIES

The Corporation operates under the Lesotho National Development Corporation Act No. 13 of 1990 (as amended) to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho.

2. GROUP ACCOUNTING POLICIES

These financial statements have been prepared on the historical cost basis, modified by the equity method of accounting for associated companies (Policy 2.3) and the revaluation of buildings (Note 4.2) and incorporate the following accounting policies:

2.1 Group Financial Statements

The group financial statements comprise the assets, liabilities and results of the Corporation, and those of its subsidiaries, which it is intended, should continue as going concerns. Subsidiary companies are those in which the Corporation holds more than 50% of the equity share capital.

2.2 Subsidiary Companies

Interest in subsidiary companies in the Corporation is stated at cost less provision where a material and permanent diminution in the attributable net asset value of the subsidiary has occurred. Additional provisions are effected, where considered appropriate, to cover shortfalls anticipated in consequence of guarantees issued by the Corporation on behalf of subsidiary companies.

2.3 Associated Companies

Associated companies comprise those companies, not being subsidiaries, in which the Corporation holds directly or indirectly 20% or more of the equity share capital.

Associated companies are dealt with in the Corporation under the cost method of accounting. Provisions against diminution in the value of the Corporation's interest in associated companies and against shortfalls anticipated in consequence of guarantees issued by the Corporation on behalf of associated companies are effected where considered appropriate.

Associated companies are dealt with in the group under the equity method of accounting. Results are included in the income statement from the effective dates of acquisition.

The most recent available audited financial statements of the associated companies are used. Where these statement are for a period ended more than six months prior to the Corporation's year end the associated company's most recent unaudited results are used provided the Corporation is satisfied that they are reliable.

2.4 Investment

Investments are shown at cost, less amounts written off. Their results are brought to account only to the extent of dividends received.

STATEMENT OF GROUP ACCOUNTING POLICIES

(continued)

2.5 Method of Determining Stock Values

Stock has generally been valued at the lower of cost and net realisable value.

In the case of raw materials, merchandise and consumable stores, cost is determined using either the first-in, first-out or average cost methods.

In the case of work in progress and finished goods, cost includes the cost of direct materials and labour, and attributable production overheads calculated on the basis of normal activity.

2.6 Depreciation of Fixed Assets, Land and Buildings: (continued)

Other Fixed Assets

The values of other fixed assets are depreciated on the straight line basis at the following minimum annual rates which are designed to reduce book values to estimated residual values over the expected useful lives of the assets concerned.

Motor vehicles	20%
Furniture, plant and equipment	10%

2.7 Capitalisation of Borrowing Costs

Borrowing costs including interest incurred in respect of properties which require in excess of one year to construct are capitalised up to the date of completion certificate.

2.8 Foreign Currencies

All transactions denominated in foreign currencies are translated to Maloti at the approximate rate of exchange ruling at the transaction date.

All assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Maloti at the approximate rate of exchange ruling at that date except where they are covered by forward exchange contracts.

2.9 Foreign Exchange Differences

Exchange differences arising in the Corporation were charged to the Government of Lesotho who had agreed to provide protection against exchange rate changes on the Corporation's foreign currency borrowings up to March 31 1990. Since that date, realised exchange differences are dealt within the Income Statement. Unrealised exchange differences are held as suspense debtors or creditors until cleared.

Subsidiary Companies

Realised exchange differences are dealt with in the Income Statement.

Unrealised exchange losses are deferred and recognised in the income statement of current and future periods on a systematic basis over the repayment periods. Unrealised exchange surpluses are transferred to a non-distributable reserve pending realisation.

STATEMENT OF GROUP ACCOUNTING POLICIES

(continued)

2.10 Grants Received

2.10.1 *By Subsidiaries:*

(a) Grants received to fund the construction or acquisition of specific fixed assets are transferred to income in the financial statements of subsidiaries over the expected useful lives of the relevant assets. Balances not thus transferred are, to the extent attributable to the Corporation, credited to shareholder's funds for the reason that the Corporation is precluded from distributing its income or property.

(b) Grants received to subvent operating expenditure and pre-production expenses are credited against the expenditure incurred.

2.10.2 *By the Corporation:*

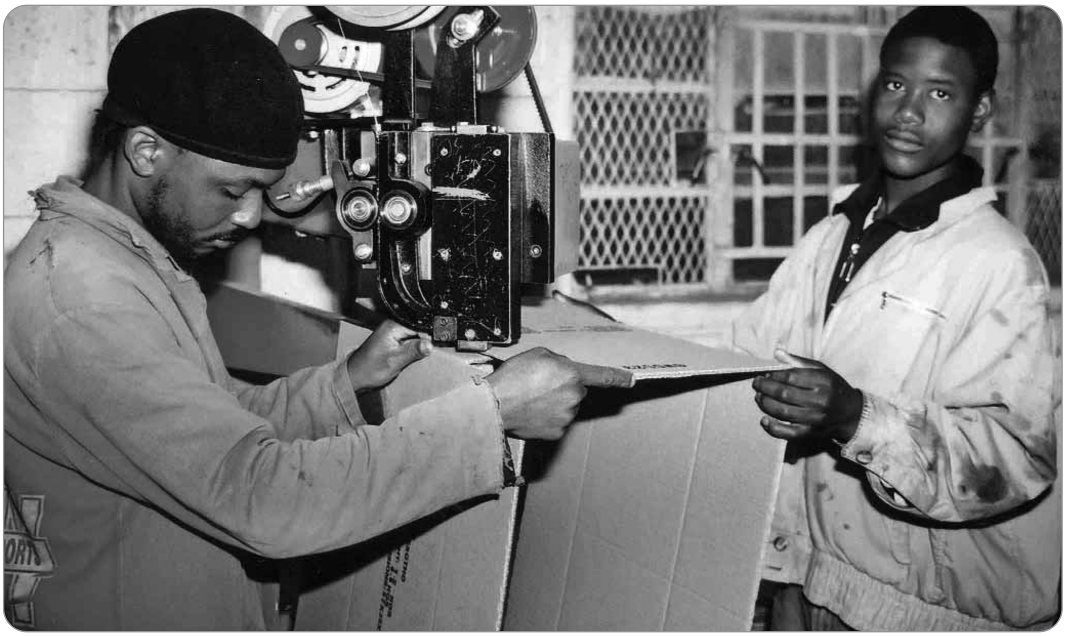
(a) Non repayable development grants received to assist the financing of development activities are credited directly to shareholders' funds in full.

Where a development activity sustains losses, an appropriate portion of the grant is released to the income statement and utilised to offset the provision for loss.

(b) Grants related to assets of a capital nature are released to the income statement on a systematic basis over the useful lives of the assets.

2.11 Retirement and Terminal Benefits

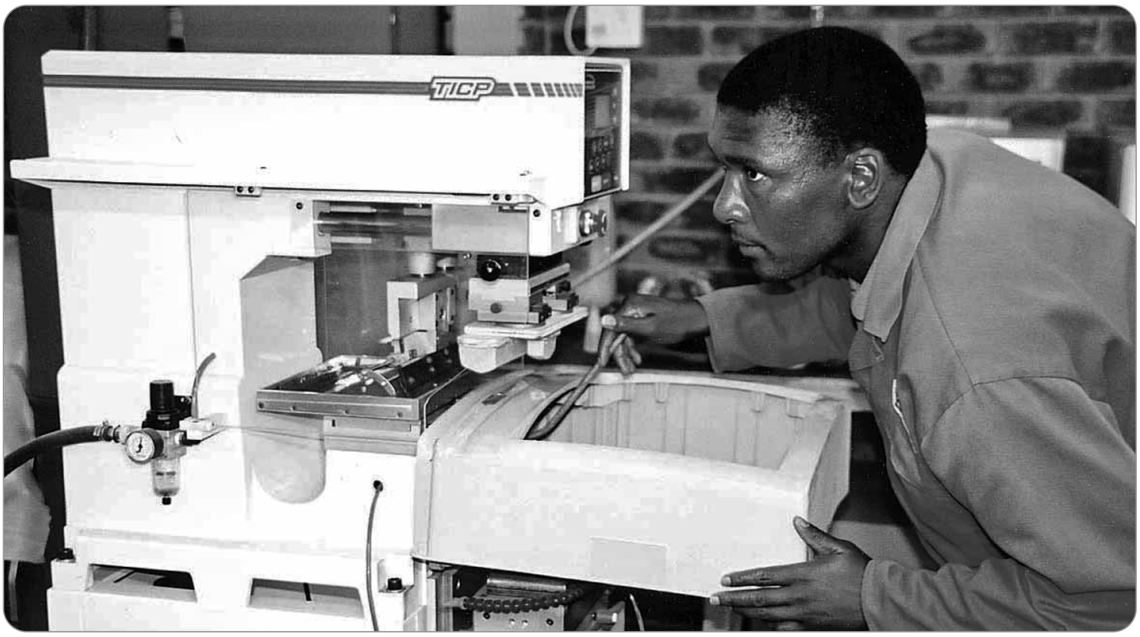
The policy of the Corporation is to provide for retirement and terminal benefit on all its employees. Current contributions to the pension fund operated for employees are charged against income as incurred. Provision for severance pay is in accordance with the Labour Code Order 1992 section 79.



INCOME STATEMENT

for the year ended 31 March 2005

		Corporation		Group	
	Notes	**2005 M'000**	2004 M'000	**2005 M'000**	2004 M'000
Turnover	**13**	**–**	–	**277 182**	285 396
Operating income	**14**	**6 641**	8 963	**45 456**	39 930
Income from associates		**3 473**	6 493	**5 181**	7 426
Income before tax		**10 114**	15 456	**50 637**	47 356
Taxation	**15**	**(2 043)**	–	**(11 448)**	(7 916)
Income after taxation		**8 071**	15 456	**39 189**	39 440
Minority interests		**–**	–	**(23 802)**	(20 681)
Income from ordinary activities		**8 071**	15 456	**15 387**	18 759
Preference share		**–**	(180)	**–**	(180)
		8 071	15 276	**15 387**	18 579
Prior year adjustment	**17**	**2 006**	(16 301)	**2 006**	(16 301)
At beginning of year		**2 938**	71 918	**59 642**	125 319
		13 015	70 893	**77 035**	127 597
Capitalised as share capital		**–**	(67 955)	**–**	(67 955)
At end of year		**13 015**	2 938	**77 035**	59 642



BALANCE SHEET

at 31 March 2005

		Corporation		Group	
	Notes	**2005 M'000**	2004 M'000	**2005 M'000**	2004 M'000
ASSETS					
Non-current assets					
Property, plant and equipment	**4**	**403 700**	387 566	**481 950**	469 565
Investment in subsidiaries	**5**	**11 725**	2 406	**–**	–
Investment in associates	**6**	**236**	746	**26 883**	25 356
Other investments	**7**	**15 147**	12 996	**21 564**	22 862
Loan debtors	**8**	**5 380**	5 564	**5 380**	5 564
		436 188	409 278	**535 777**	523 347
Current assets					
Inventories	**9**	**–**	–	**25 241**	30 174
Accounts receivable	**10**	**8 187**	7 386	**22 215**	22 521
Short term investments		**15 364**	21 908	**15 364**	21 908
Bank balances and cash		**2 764**	–	**17 416**	1 216
		26 315	29 294	**80 236**	75 819
		462 503	438 572	**616 013**	599 166
Total assets					
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	**128 000**	128 000	**128 000**	128 000
Non-distributable reserves	**2**	**166 847**	147 952	**167 975**	150 579
Retained income		**13 015**	2 938	**77 035**	59 642
		307 862	278 890	**373 010**	338 221
Minority interest		**–**	–	**40 926**	41 209
		307 862	278 890	**413 936**	379 430
Total equity					
Non-current liabilities					
Long-term borrowings	**3.1**	**129 852**	131 878	**129 852**	131 878
Long-term provisions	**3.2**	**3 035**	2 036	**3 035**	2 036
Deferred tax		**–**	–	**1 386**	1 275
		132 887	133 914	**134 273**	135 189
Total non-current liabilities					
Current liabilities					
Bank overdraft		**–**	1 370	**–**	6 909
Accounts payable		**21 754**	24 398	**65 152**	76 946
Taxation		**–**	–	**2 652**	692
Total current liabilities		**21 754**	25 768	**67 804**	84 547
		154 641	159 682	**202 077**	219 736
Total liabilities					
Total equity and liabilities		**462 503**	438 572	**616 013**	599 166

CASH FLOW STATEMENT

for the year ended 31 March 2005

		Corporation		Group	
	Note	**2005 M'000**	2004 M'000	**2005 M'000**	2004 M'000
Net cash flow from operations	**16.1**	**46 267**	9 737	**90 375**	66 227
Returns on investments	**16.2**	**(9 591)**	(7 598)	**(9 078)**	(8 615)
Capital expenditure	**16.3**	**(24 386)**	(69 920)	**(31 603)**	(92 146)
Dividends paid		**–**	(900)	**(24 085)**	(13 760)
Taxation paid		**(2 043)**	–	**(9 377)**	(11 439)
Management of liquid resources	**16.4**	**(11 630)**	16 320	**1 360**	(3 232)
Financing	**16.5**	**(1 027)**	5 034	**(1 027)**	5 034
Increase in cash in year		**(2 410)**	(47 327)	**16 565**	(57 931)
Cash at beginning of year		**20 538**	67 865	**16 215**	74 146
Cash at end of year	**16.6**	**18 128**	20 538	**32 780**	16 215

NOTES TO THE FINANCIAL STATEMENTS

		Corporation		Group	
		2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
1.	**SHARE CAPITAL**				
	Authorised				
	250 000 000 shares of M1 each	**250 000**	250 000	**250 000**	250 000
	ISSUED AND FULLY PAID				
	128 000 000 shares of M1 each	**128 000**	128 000	**128 000**	128 000
2.	**NON-DISTRIBUTABLE RESERVES**				
2.1	**Development grants**				
	Grants from Lesotho Government:				
	At beginning of year	**50**	24 150	**50**	24 150
	Received during the year	**19 750**	–	**19 750**	–
	Converted to share capital	–	(24 045)	–	(24 045)
	Transferred to income statement	–	(55)	–	(55)
	At end of year	**19 800**	(50)	**19 800**	50
	Capital grants				
	At beginning of year	–	–	**402**	402
	Adjustment during the year	–	–	**(402)**	–
	At end of year	–	–	–	402
	Total development grants	**19 800**	50	**19 800**	452
2.2	**Bonus shares**				
	Capitalisation of post acquisition profits earned by a subsidiary				
	At beginning of year	**858**	858	**858**	858
	Written off during year	**(858)**	–	**(858)**	–
	At end of year	–	858	–	858

		Corporation 2005 M'000	Corporation 2004 M'000	Group 2005 M'000	Group 2004 M'000
2.	**NON-DISTRIBUTABLE RESERVES (continued)**				
2.3	**Unrealised surplus**				
	Surplus on revaluation of land and buildings				
	At beginning of year	**143 044**	143 044	**143 456**	143 456
	Movement during the year	**–**	–	**(409)**	–
	At end of year	**143 044**	143 044	**143 047**	143 456
2.4	**Unrealised surplus**				
	Arising on the acquisition of subsidiaries				
	At beginning of year	**–**	–	**379**	379
	Movement during the year	**–**	–	**(379)**	–
	At end of year	**–**	–	**–**	379
2.5	**Attributable share in Associated Companies**				
	Capital grant	**–**	–	**–**	306
	Share premium	**–**	–	**400**	400
	Capitalisation of accumulated profits	**–**	–	**328**	328
	Capital redemption fund	**–**	–	**400**	400
		–	–	**1 128**	1 434
2.6	**Capital Redemption**				
	Capitalised revenue reserve to finance redemption of preference shares	**4 000**	4 000	**4 000**	4 000
		166 847	147 952	**167 975**	150 579

		Corporation 2005 M'000	Corporation 2004 M'000	Group 2005 M'000	Group 2004 M'000
3.	**LONG-TERM LOANS**				
	Loans outstanding as detailed below:	**138 256**	140 371	**138 256**	142 408
	Less: Current maturities included in accounts payable	**(8 404)**	(8 493)	**(8 404)**	(8 494)
		129 852	131 878	**129 852**	133 914

	Group 2005 M'000	Group 2004 M'000
3. LONG-TERM LOANS (continued)		
3.1 Corporation		
Lesotho Bank:		
5% loan repayable by annual instalments on an annuity basis over twenty years commencing 10 November 1979 guaranteed by Government of Lesotho	**(14)**	(14)
European Investment Bank Global Loan I		
4% and 8% loans repayable in eight years commencing 1 March 1991	**303**	291
European Investment Bank (Industrial Estate)		
5% loan of ECU 1.4 million repayment schedule Not yet agreed	**11 576**	11 074
Frasers Limited		
Interest free loan with no fixed date of repayment	**6**	6
Government of Lesotho:		
IDA		
7% loan repayable in twenty yearly instalments commencing 1 July 2000	**12 602**	13 862
KFW (OLD)		
3/4% loan repayable over fifteen years after a five year grace period from a date to be determined	**883**	883
ODA 1		
8% loan repayable in fifty half yearly instalments commencing 1 June 1988	**113**	144
ADB		
4% loan repayable in twenty yearly instalments commencing 1 July 2000	**23 556**	23 721
ODA II		
8% loan. Repayable over 25 years commencing 1 July 1991	**216**	231
Carried forward	**49 241**	50 198

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Group	
		2005 M'000	2004 M'000
3.	**LONG-TERM LOANS AND PROVISIONS (continued)**		
3.1	**Corporation (continued)**		
	Brought forward	**49 241**	50 198
	ODA III		
	8% loan. Repayable over 25 years commencing 1 July 1991	**292**	320
	ODA 1st line of credit		
	7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	**1 654**	1 820
	KFW (HA NYENYE)		
	5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	**4 993**	5 991
	ODA 2nd line of credit		
	7% loan, ODA line of credit. Repayable over 25 years commencing 26 September 1996	**4 003**	4 184
	Public Investment Commissioners		
	13,9% loan repayable after twenty year period	**52 878**	52 878
	European Investment Bank B		
	5% loan from EIB to GOL lent to LNDC Repayable in ten equal instalments commencing 31 October 1999	**3 814**	3 685
	European Investment Bank C		
	1% loan from EIB to GOL On-lent to LNDC repayable in ten equal annual instalments	**726**	726
	Development Bank of Southern Africa		
	12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	**1 194**	1 891
	GOL – LNDC Centre		
	5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	**7 700**	9 100
	Nedbank Lesotho		
	Interest is charged at prime minus 4% repayable in 10 years starting from 11 November, 2003 after 12 months moratorium	**8 820**	9 578
	GOL - Basotho Cannery	**2 941**	–
	Total Corporation loans	**138 256**	140 371
3.2	**Long Term Provisions**		
	Severance pay made in accordance with Section 79 of the Labour Code Order 1992	**3 035**	2 036

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation 2005 M'000	Corporation 2004 M'000	Group 2005 M'000	Group 2004 M'000
4. FIXED ASSETS				
4.1 Cost or valuation				
Land and buildings	**423 673**	399 168	**451 663**	441 804
Plant, vehicles, furniture and equipment	**8 496**	8 035	**147 702**	150 866
	432 169	407 203	**599 365**	592 670
Accumulated depreciation				
Land and buildings	**22 536**	14 086	**39 729**	37 843
Plant, vehicles, furniture and equipment	**5 933**	5 551	**77 686**	85 262
	28 469	19 637	**117 415**	123 105
Net book value	**403 700**	387 566	**481 950**	469 565

4.2 Valuation of land and buildings

Corporation

The directors' policy is to review the valuation of land and buildings every five years. The last valuation which is incorporated in these Financial Statements was done in March 2003.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

Name	Principal activity	**Equity held 2005 %**	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	**Net interest 2005 M'000**	Net interest 2004 M'000
5. INTEREST IN SUBSIDIARIES							
5.1 Active subsidiaries							
Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	**100**	100	9 585	–	9 685	366
Lesotho Brewing Company (Pty) Ltd	Brewery	**51**	2 040	–	–	2 040	2 040
Loti Brick (Pty) Ltd	Brick making plant	**73,6**	8 032	8 474	(16 506)	–	–
			10 172	18 059	(16 506)	11 725	2 406

	2005 M'000	2004 M'000
5.2 Provision for losses in subsidiaries:		
Balance at beginning of year	**16 506**	13 094
Provision reversed	**–**	–
Increase in provision	**–**	3 412
	16 506	16 506

	Corporation		**Group**	
	2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
6. INTEREST IN ASSOCIATED COMPANIES				
6.1 Summary				
Shares at cost	**236**	776	**236**	776
Share of non-distributable reserves	**–**	–	**1 128**	1 128
Share of retained income	**–**	–	**25 519**	23 452
Provision for losses	**–**	(30)	**–**	–
	236	746	**26 883**	25 356
Directors' valuation			**26 883**	25 356

NOTES TO THE FINANCIAL STATEMENTS

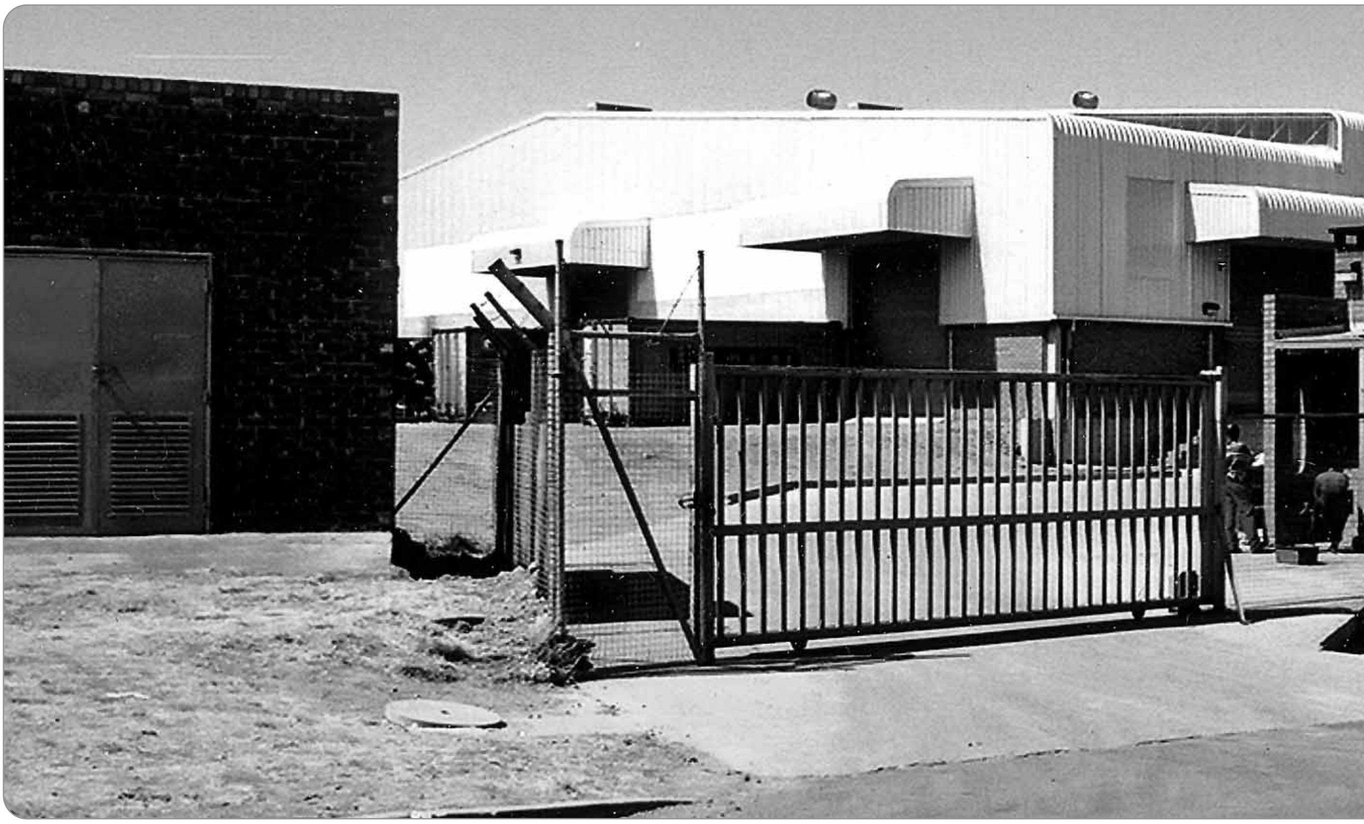
(continued)

6. INTEREST IN ASSOCIATED COMPANIES (continued)

6.2 Analysis

Name	Principal activity	Number of shares held Note 1	Proportion held %	Accounting period used Note 2
CORPORATION				
Cash Build Lesotho (Pty) Ltd	Wholesalers	20 000	20	30.06.05
Lesotho Food Industries (Pty) Ltd	Investment in LM Co	66 167	39,7	30.06.05
OK Bazaars Lesotho (Pty) Ltd	Retailers	150 000	50	30.06.05
Sun International Lesotho (Pty) Ltd	Hotel and casino	A 20/B 328 291	20	30.06.05
Lesotho Pharmaceutical Corporation	Drug manufacturer	526 000	11	31.03.04
Frasers			3	

Notes to this schedule continued overleaf



6. INTEREST IN ASSOCIATED COMPANIES (continued)

Cost of equity M'000	Non-distributable reserves M'000	Distributable reserves 31.03.05 M'000	Total interest M'000	Note	Total interest 31.03.01 M'000
20	400	2 603	3 023	3	2 715
66	–	13 279	13 345	3	13 043
150	400	6 565	7 115	3	6 552
–	328	3 072	3 400	3	2 506
–	–	–	–		526
–	–	–	–		14
236	1 128	25 519	26 883		25 356

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2005 M'000	2004 M'000
6. INTEREST IN ASSOCIATED COMPANIES (continued)		
6.3 Notes		
1. All shares of M1 each, fully paid		
2. Year ended unless stated otherwise		
3. Based on audited financial statements		
7. OTHER INVESTMENTS		
Unlisted equity shares:		
Lesotho Housing and Land Development Corporation	**958**	958
Frasers	**14**	–
Lesotho Pharmaceutical Corporation (LPC)	**496**	–
Zero coupon loan stock (RSA Govt. Bond) Corporation	**13 679**	12 038
	15 147	12 996
Cost of investment in LPC is M526 000. Provision for loss is M30 000		
8. LONG-TERM DEBTORS		
CORPORATION AND GROUP		
Loan debtors at varying rates of interest and repayment terms	**1 121**	1 819
Unrealised foreign exchange losses (per policy 2.9)	**4 259**	3 745
	5 380	5 564
9. INVENTORIES		
GROUP		
Raw materials	**4 484**	4 942
Finished goods and merchandise	**15 564**	18 955
Consumable stores	**3 357**	4 203
Work in progress	**1 836**	2 074
Total stocks	**25 241**	30 174

	Corporation		Group	
	2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
10. ACCOUNTS RECEIVABLE				
VAT	**5 487**	1 573	**5 487**	1 573
Realised foreign exchange losses due from Government of Lesotho	**190**	190	**190**	190
Building rental	**7 866**	11 234	**7 866**	11 234
Provision and other debtors	**(5 356)**	(5 611)	**8 672**	9 524
	8 187	7 386	**22 215**	22 521

11. CONTINGENT LIABILITIES

11.1 Guarantees in respect of the repayment of loans and overdrafts advanced to subsidiaries and other parties and not otherwise provided for are as follows:

	Limit of Guarantees		Exposure	
	2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
(a) Corporation				
Associates	**610**	610	**–**	–
Third parties	**800**	800	**800**	800
	1 410	1 410	**800**	800
(b) Group				
Associates	**610**	610	**–**	–
Third parties	**800**	800	**800**	800
	1 410	1 410	**800**	800

12. COMMITMENTS

	Corporation 2005	Corporation 2004	Group 2005	Group 2004
Capital commitments contracted for:				
– Buildings and equipment	**6 970**	6 970	**6 970**	6 970
Authorised but not committed:				
– Buildings and equipment	**–**	–	**12 831**	12 584
	–	–	**12 831**	12 584
Total capital commitments	**6 970**	6 970	**19 801**	19 554

This expenditure will be financed out of Government grants, own funds and donor finance (Corporation) own funds (Group).

NOTES TO THE FINANCIAL STATEMENTS

(continued)

13. TURNOVER

Turnover is the amount receivable by the Group in the ordinary course of business for goods supplied and services rendered.

		Corporation		Group	
		2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
14.	**OPERATING PROFIT FOR THE YEAR**				
	Stated after crediting or charging the following:				
	Income				
	Profit/(Loss) on disposal of fixed assets	**1 190**	43	**1 190**	69
	Interest	**3 953**	5 758	**5 608**	6 207
	Rents	**35 643**	32 521	**35 643**	32 521
	Income from subsidiaries – dividends	**20 604**	17 850	**–**	–
	Expenses				
	Depreciation and amortisation of fixed assets	**9 442**	8 841	**18 356**	17 911
	Auditors remuneration: Audit fees	**140**	83	**250**	269
	Interest	**13 544**	13 356	**14 686**	14 822
15.	**TAXATION**				
15.1	Normal tax on current profits	**2 043**	–	**11 337**	7 218
	Deferred tax	**–**	–	**111**	698
		2 043	–	**11 448**	7 916

15.2 According to the Statutory Bodies Laws (Amendment) Order No.16 of 1989, LNDC, with effect from 1 August 1989 became liable for tax.

15.3 The laws of Lesotho preclude the setting off of losses incurred by one group taxpayer against the taxable income of another, i.e. there is no group relief.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2005 M'000	2004 M'000	**2005 M'000**	2004 M'000
16.	**NOTES TO THE CASH FLOW STATEMENT**				
16.1	**Reconciliation of operating profit to net cash inflow from Operating activities**				
	Profit before tax	**6 641**	8 963	**45 456**	39 930
	Return on investment	**9 591**	7 598	**9 078**	8 615
	Depreciation	**9 442**	8 841	**18 357**	17 911
	Profit on sale of fixed assets	**(1 190)**	(43)	**(1 190)**	(69)
	Amortisation of grants	**–**	(55)	**–**	(55)
	Associates income	**3 473**	6 493	**3 473**	9 442
	Prior year adjustment	**2 006**	(16 301)	**2 006**	(16 301)
	Grants received	**19 750**	–	**19 750**	–
	(Decrease)/Increase in stock	**–**	–	**4 933**	(6 218)
	Decrease/(Increase) in debtors	**(801)**	(5 476)	**306**	(8 516)
	(Decrease) in creditors	**(2 645)**	(283)	**(11 789)**	21 488
	Net cash inflow from operating activities	**46 267**	9 737	**90 379**	66 227
16.2	**Returns on investments**				
	Interest received	**3 953**	5 758	**5 608**	6 207
	Interest paid	**(13 544)**	(13 356)	**(14 686)**	(14 822)
		(9 591)	(7 598)	**(9 078)**	(8 615)
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(26 137)**	(70 070)	**(39 130)**	(95 871)
	Receipts from sale of fixed assets	**1 751**	150	**7 527**	3 725
		(24 386)	(69 920)	**(31 603)**	(92 146)

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2005	2004	**2005**	2004
		M'000	M'000	**M'000**	M'000
16.	**NOTES TO THE CASH FLOW STATEMENT (continued)**				
16.4	**Management of liquid resources**				
	Decrease in amounts owing by associates	**14**	_	14	_
	Decrease in amounts owing by subsidiaries	**(10 174)**	17 915	**–**	–
	Decrease\(Increase) in loan debtors	**185**	(96)	**184**	(96)
	Decrease/(Increase) in other investments	**(1 655)**	(1 499)	**1 158**	(3 136)
		(11 630)	16 320	**1 356**	(3 232)
16.5	**Financing**				
	(Decrease) in long term loans	**(1 027)**	5 034	**(1 027)**	5 034
16.6	**Analysis of cash at end of year**				
	Bank balances and cash	**2 764**	_	**17 416**	1 216
	Bank overdraft	_	(1 370)	_	(6 909)
	Short term investments	**15 364**	21 908	**15 364**	21 908
		18 128	20 538	**32 780**	16 215
17.	**PRIOR YEAR ADJUSTMENT**				
	Provision for investment in and loan to Loti Brick	**2 006**	(16 301)	**2 006**	(16 301)