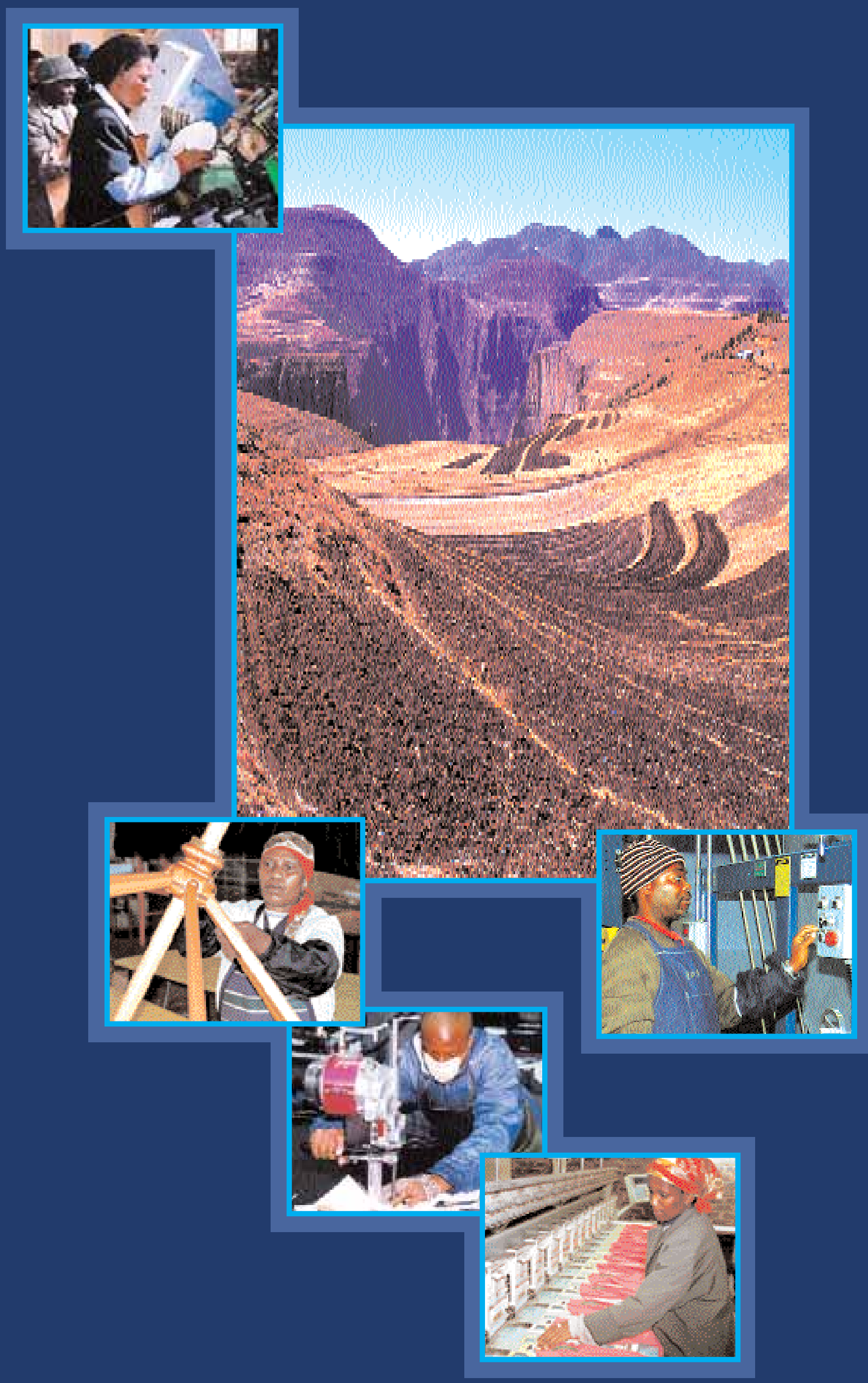
Lesotho National Development Corporation

ANNUAL REPORT 2002/2003



With compliments of the Board of Directors, Management and Staff

LNDC
LESOTHO NATIONAL DEVELOPMENT CORPORATION

CONTENTS

CORPORATE PROFILE

The Lesotho National Development Corporation (LNDC) is a Government of Lesotho's parastatal body originally established by the LNDC Act No. 20 of 1967. This act was later amended through the LNDC Order No. 13 of 1990 which became effective in June 1993, and further amended by LNDC (Amendment) Act No. 7 of 2000. The essential mandate of the Corporation as stipulated in section 4 subsection 1 of the LNDC Order No. 13 of 1990 states that:

"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."

The Corporation interprets its main role as the promotion of Lesotho as an attractive, and as such, a preferred investment location to both private sector, foreign and indigenous investors. LNDC also offers a wide range of investment supportive services: serviced industrial sites; factory buildings; projects implementation services; after care services; financial assistance to investors; and where possible, selective limited equity participation in projects considered to be of strategic importance to the national economy.

Until 1985, the Government of Lesotho (GOL) was the sole shareholder of the then M4 million authorised and issued share capital in the Corporation. In 1986, negotiations were successfully concluded with the German finance company (DEG), for investments in developing countries for a subscription of Deutschemark (Dm) 1 million redeemable preference shares at a face value of one Loti each. In addition, conversion of M5 million capital reserves to fully issued and paid share capital was concluded. Consequently, the Corporation's authorised capital was increased to M10 million, paid up as M9 million ordinary shares and M1 million redeemable preference shares owned by the Government of Lesotho and DEG respectively. In 1988, authorised share capital was increased to M20 million shares valued at one Loti each. Another financing protocol was entered into between the Government of Lesotho and the Federal Republic of Germany, towards allocation of three million DM (3 million) to LNDC to increase DEG's interest.

Order No. 13 of 1990 provides for the Corporation's ownership to be opened up for other investors, while GOL remains majority shareholder all the time. To facilitate further equity capital injection, the LNDC Board resolved in 1990, that authorised share capital be further increased by M35 million to M55 million. During 1994/95, the GOL negotiated a financing arrangement from the European Investment Bank, which included ECU 0,75 million (then equivalent to M3 million) to be used for the subscription of additional shares by Government into LNDC. DEG converted some of its loans into shares in order to maintain the M4 million Maloti share holding. Following this subscription of additional shares by both GOL and DEG, paid up share capital increased form M20 milllion to M40 million, comprising M36 million ordinary shares and M4 million preference shares.

LNDC falls under the auspices of the Ministry of Trade and Industry, Cooperatives and Marketing which is responsible for providing overall policy direction on industrialisation and commercialisation. The Corporation's structure comprises eight divisions: Investment Promotion Centre, Entrepreneurial Development; Operations; Asset Management; Finance; Internal Audit; Human Resources and Legal. The LNDC is managed by the Chief Executive supported by the Executive and Management teams.

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 inter alia, in accordance with these statutory requirements, that the LNDC presents this edition of its annual report for the financial year starting 1 April, 2002 and ending 31 March, 2003. The report reviews the Corporation's activities and achievements over that period. As usual, the report includes Group Audited Financial Statements approved by the relevant authorities. 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 directly derived from the dynamics of the Lesotho economy and the country's future needs. One of the key features of the dynamics is the increasing dominance of the industrial sector in terms of contribution to GDP, employment creation and phenomenal growth in export volumes and earnings; a situation that is expected to prevail for quite some time in the future. With the industrial sector thus poised to be the economy's growth engine, LNDC's long term vision is to see:

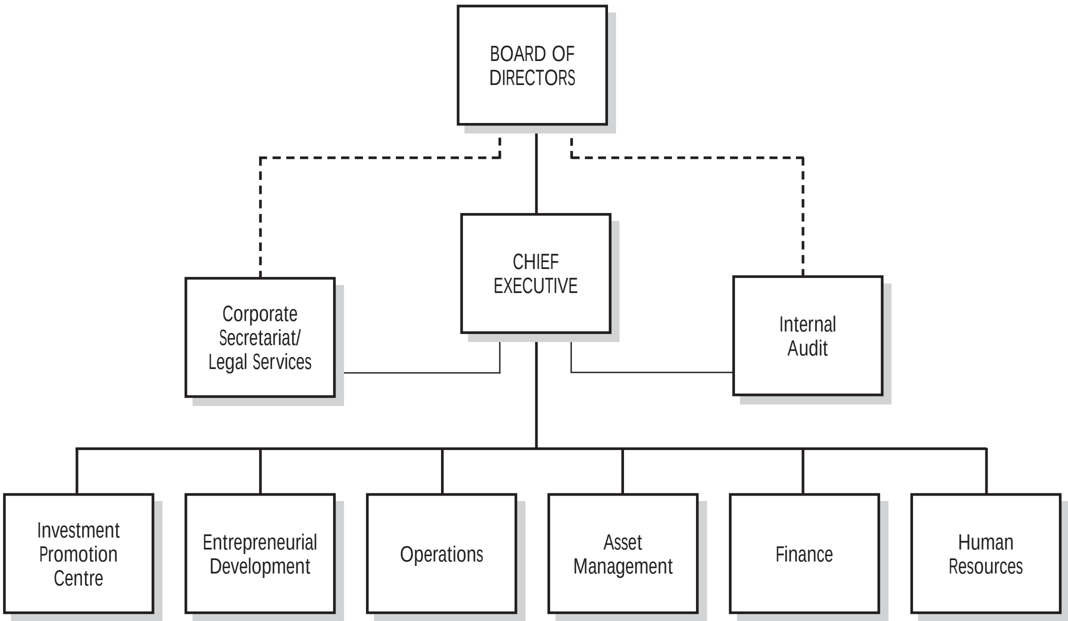
- A thriving and profitable manufacturing and processing industry, as well as general commercial activities which maintain a leading role in the economic development of Lesotho and which generate mass employment for the Basotho.
- The indigenous business community playing an active role in the industrial development programme of the country.
- Indigenous resources being turned into high value industrial products.
- The LNDC developing into a more market focused organisation that provides high quality services and facilities to its clients.
- The LNDC continuing to be an attractive long-term investment for its shareholders.

The expected results of this vision include:

- Generation of new investment projects and expansions especially in labour intensive industries.
- Employment generation and improved living standards.
- Enhancement of Lesotho's competitiveness.
- Increased participation of indigenous businesses through the provision of strategic support and the promotion of linkages with foreign companies.

LNDC ORGANISATIONAL STRUCTURE

end of the financial year 2002/2003



LNDC BOARD OF DIRECTORS

end of the financial year 2002/2003

CHAIRMAN

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

MEMBERS

Mrs L Tshabalala
Representative of the Ministry of Finance and Development Planning

Mrs M Motselebane
Representative of the Ministry of Agriculture and Food Security

Mr K Mpasa
Representative of the Minstry of Tourism, Environment and Culture

Mr P Mokhesi
Representative of the Private Sector

Dr M Ramatlapeng
Representative of the Private Sector

Mr O S M Moosa
Representative of the Lesotho Chamber of Commerce and Industry

Mrs A S Mokorosi
Representative of the Lesotho Manufacturers Association

Mr T Mochekele
Representative of the Lesotho Consumer Organisation

CHIEF EXECUTIVE

Mrs S M Mohapi
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: (09266) 22 312012
Telefax: (09266) 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: (09266) 22 315737

LNDC EXECUTIVE & MANAGEMENT TEAM

end of the financial year 2002/2003

EXECUTIVE TEAM

Mrs S M Mohapi
B.Com (Hons)
Chartered Accountant (Lesotho)
Chief Executive

Mr Motebang Mokoaleli
B.Com (Accounting)
Master of Business Administration (MBA)
Head, Investment Promotion Centre

Mr M Shelile
BA Economics
Head, Entrepreneurial Development

Mrs ‘Mathabo Klass
BCom (Accounting)
Master of Business Administration (MBA)
Head, Operations

Mr Lebohang Mofammere
Bachelor of Engineering(Civil)
Head, Asset Management

Mr L A Sephelane
B.Com (Accounting)
Chartered Accountant (Lesotho)
Financial Controller

Ms L Mataboe
BA Admin & Sociology
Masters in Public Administration
Head, Human Resources

Mr Clark Taelo Poopa
BA Law (Attorney’s Admission)
Head, Legal & Corporate Secretary

Ms T Lekalakala
BA Economics & Statistics
Registered Accountant (Lesotho)
Chief Internal Auditor

MANAGEMENT TEAM

Mrs Felleng Makeka
Manager, Investment Promotion

Mrs Lesa Makhoalibe
Manager, Public Relations

Mr Molupe Mohale
Projects Manager

Mr Justice Sello Ts’ukulu
Manager, Industrial Relations

Mr Litlhokoe Daniel Mohlomi
Information Technology Manager

Ms Marina Maloi
Projects Manager

Ms ‘Majane Lesala
Senior Internal Auditor

Mrs ‘Mampho Mahase
Senior Projects Manager

Mrs Nthabiseng Posholli
Senior Accountant

Ms Fumane Maema
Projects Manager

STATEMENT BY THE CHAIRMAN

D M Rantekoa
Chairman

It is once again 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 2003. The period under review marks my second anniversary as the Chairman of the Board. The period also marks the second anniversary for my colleagues and fellow Board members, as members of the same Board.

Pursuant to contemporary practices of good Corporate Governance, the LNDC's Board of Directors' paramount role, is to drive the policy direction of the Corporation. This responsibility has been executed extremely well, cognisant of the key external events, issues and developments with potential to affect current and future performance of the LNDC. It is with great sense of appreciation to acknowledge the express commitment and foresight demonstrated by what can be described as a "dream-team" in pursuit of the Corporation's goals and objectives.

The restructuring process within LNDC was successfully completed in the preceding year. The current year commenced with the inscription of a new chapter, guided by a philosophy of a new organisation which is attuned to its dynamic environment. It is against these emerging dynamics that the LNDC Board is envisioning an organisation which can demonstrate zeal and potential to reach the desired zenith. An organisation with a clear sense of purpose, focus and future. It is the Board's view that existence of these virtues shall create the right atmosphere for the reduction of wide-spread poverty and the generation of wealth for the nation. It is in this regard that the incumbent Board is embracing measures which seek to assist the Corporation in living up to its mandate. The following text underscores those developments in the operating environment which have a bearing on the performance of the Corporation.

At the macro level, Lesotho's trade and investment regime has been moulded on multilateral and regional agreements in which it participates. Lesotho's membership in the World Trade Organisation (WTO), as well as its membership to the Southern African Development Community (SADC) provides a host of developmental opportunities. In particular, as a consequence of Lesotho's WTO membership, the Corporation has managed to secure a niche in the attraction of low cost, market seeking investors who rely on basic technology, minimal infrastructure and low skills. This inward investment drive received a further boost through the enactment of the African Growth and Opportunity Act (AGOA) to which Lesotho was certified as a beneficiary in April 2001. Lesotho's certification under AGOA assisted the country to build on the successes of its membership to the WTO. By the end of December 2002, Lesotho emerged as a shining example of Sub-Saharan Africa by transforming into a number one exporter of clothing and textile products to the United States (US), registering a record of exports at US$215 million. This situation has assisted Lesotho in easing pressure on her developmental challenges. For example, LNDC assisted projects have been able to increase jobs to 44 000 in the reporting period from 38 000 the previous year. AGOA has undoubtedly provided the necessary growth impetus for Lesotho as a market opportunity. Other initiatives are following on AGOA with expected similar outcomes. These include: the envisaged Economic Partnership Agreements (EPA's) between the European Union (EU) and the African Caribbean and Pacific (ACP) countries, as well as a unilateral initiative by Canada to provide duty and quota free access for qualifying Lesotho made products, including garments. These initiatives will provide Lesotho made products with the requisite expanded and diversified markets.

STATEMENT BY THE CHAIRMAN
(continued)

At Sub-regional level, the Southern African Customs Union (SACU) prudent trade and investment regime continues to generate positive spin-offs for foreign direct investment into Lesotho. This trade and investment regime is a conscious approach in direct response to the limitations and opportunities posed by Lesotho's socio economic landscape. The regime's commitment to growth and development in the region is manifested, amongst others, by the provisions of rebate item 470.03, which is an export development and promotion strategy, as well as the free interchange of goods within SACU. It is worth mentioning at this juncture that the efforts of LNDC and indeed of the country in the attraction of foreign direct investment have, to a large extent, been premised on this trade and investment regime.

The period under review witnessed the setting into motion of the review of the SACU trade policy. This review is directed at introducing significant changes in the modus operandi of the common customs area as a catalyst to sustainable growth and development. Key measures in this regard include, the institutional strengthening of the Customs Union as well as the harmonisation of member countries' policies in respect of certain non-tariff barriers. Implementation of the envisaged measures is expected to enhance deeper economic integration of the region, which in turn will translate into more trade and investment.

At national level, the Government of Lesotho continues to engage in measures aimed at supplementing the LNDC initiatives in investment attraction and trade facilitation. The Government remains committed to driving a pro-investment policy framework. The Government of Lesotho has engaged in policy initiatives such as privatisation programme, and policies aimed at enhancing Lesotho's financial and fiscal prudence under the Poverty Reduction and Growth Facility (PRGF) programme. The Government of Lesotho has further initiated new interventions in the reporting period. These include, inter alia, Lesotho's Investment Policy Review (IPR) and the Integrated Framework (IF) for trade capacity building.

Implementation of the IPR and the IF would undoubtedly revive the country's investment climate. The IPR is expected to address impediments to investment attraction and will align the country's investment regime with international best practice in good governance in investment promotion and facilitation. This review is aimed at responding to glaring shortcomings in Lesotho's legal and regulatory framework which include the lack of Foreign Direct Investment (FDI) and Competition Policy. A key deliverable from the IF is expected to be the enhancement of Lesotho's productive capacity, including the enhancement of trade and investment opportunities.

At the organisational level, the LNDC Board has continued to collaborate with the LNDC Management in the development of operational policies for implementation by Management. These policies have been geared towards enhancing a viable fit between the new LNDC and its operating environment. Key operational policies approved for implementation in the reporting period include: the refinement of Board regulations; the improvement of financial regulations; as well as the development of tendering regulations.

The foregoing developments have quite clearly made significant contributions in the enhancement of trade and investment climate in Lesotho. These developments provide solid foundation in consolidating Lesotho's position as a destination of choice for investments. It is also my conviction that these developments portray a bright picture for the LNDC in its endeavours to promote Lesotho as a preferred investment destination. The overall performance of the Corporation in many respects, including inward FDI, job creation and profitability is a manifestation of this testimony.

STATEMENT BY THE CHAIRMAN

(continued)

Notwithstanding this bright outlook, Lesotho still faces real challenges in the path to sustainable growth and development: The declining and impending elimination of trade preferences under the WTO new trade order of reciprocity and non-discrimination; the declining global import and export tariffs; as well as the plethora of free trade agreements are just examples of factors with potential to erode Lesotho's competitive base. Of specific concern to Lesotho, given its competitive advantage especially in the garment sector, is the imminent phasing out of the Multifibre Arrangement (MFA), including the expiration of third country fabric special rule, all by end of 2004. It is imperative that proactive measures are taken to brace the country for this eventuality.

I draw this statement to a close by once again acknowledging contributions of the LNDC Board, Management and Staff for a job well done in the reporting period. My heart also goes out to the co-operating partners and other key stakeholders who have been instrumental in attaining the stated achievements. Together, we shall continue to meaningfully contribute to the industrialisation and commercialisation process of our beloved country in an effort to achieve the national goal of sustainable economic growth and poverty eradication.

D M Rantekoa
Chairman

STATEMENT BY THE CHIEF EXECUTIVE

Sophia Mohapi
Chief Executive

The period under review registered, once again, commendable results in the operational performance of the Corporation. This re-emerging pattern has been a conscious effort aimed at re-directing the Corporation's activities to a sustainable growth and profitability path.

The ensuing text provides an overview of the Corporation's operational developments in the reporting period.

I interpret the Corporation's key Management team responsibility as to drive the operational policy framework in a manner which will allow the LNDC Board of Directors to govern. It is my conviction that the operational policy framework should take cognisance of the developments in the operating environment and as such get attuned to this environment. Subsequent to a successful completion of the restructuring process, the LNDC focussed, in the reporting period, on the development of key operational policies which would promote effective operations. These included, the streamlining and documentation of the business processes and job descriptions for all job categories. The completion of this exercise let to the development of a new grading system and salary structure for implementation in the ensuing financial year.

In addition to this, Management developed and recommended to the Board for approval and implementation, the following key operational policies: the refinement of Board regulations; financial regulations; as well as tendering procedures. All these policy proposals were duly approved for implementation. It is my sincere belief that these policies would go a long way in promoting transparency and effectiveness on day-to-day running of the Corporation.

The Corporation's portfolio of companies registered overall growth in terms of employment and income in yet another vintage year. This growth has translated into the associated growth in both rental and dividend income, being two key sources of income for the Corporation. The portfolio of equity companies also performed fairly well with the exception of the traditional loss makers such as Loti Brick. Efforts are intensifying to cut LNDC losses through the process of aggressive privatisation. The Lesotho Brewing Company continues to outpace other equity companies in terms of dividend performance. The company has earned itself unassailable lead in its league, and as such has consolidated its position as a "cash cow" for the LNDC. The LNDC's portfolios of companies aggregate sales and profits stood at M610 million and M79 million respectively, a performance superior to prior year by 38% and 23% respectively.

The Corporation's success in making Lesotho a destination of choice for inbound investment is a function of, amongst others: the country's prudent macro-economic management process under the Poverty Reduction and Growth Facility (PRGF); the Southern African Customs Union (SACU) trade policy; the preferential trade preferences under various bilateral and multilateral trading arrangements, as well as effective investment promotion initiatives. The biggest driver of the inward investment in recent years could however be attributed to the African Growth and Opportunity Act (AGOA).

The initiative has provided the requisite growth impetus in investment attraction and facilitation for market seeking investors who are constantly in search of cost effective locations from which to supply the lucrative United States (US) markets including other regional and international markets.

Winners have emerged from predominantly clothing and textile projects of Far East origin, who took advantage of, amongst others, third country fabric provision special rule to penetrate the US market. The results of these dynamics have been a phenomenal growth for the Corporation in the reporting period. A total of nine (9) new and expansion projects were implemented during the period creating in the process, additional 6000 jobs. The Corporation's interpretation of this performance is the positive investors' perceptions regarding the investment environment in Lesotho.

The Corporation's success in investment attraction continues to centre around market seeking investors who are constantly searching for ideal production bases with potential to advance their business interests. Infrastructural development in the form of provision of serviced sites and factory buildings for investors, have over the years, provided the Corporation with a source of competitive advantage. It is against this background that the Corporation continued to engage in property development in the reporting period. In square metrage, completed new and expansion industrial projects measured 4 000. These projects were constructed at a cost of M5,2 million. Ongoing industrial projects to be completed in the ensuing year include 13 900 m^2 at Ha Nyenye. On the commercial front, 5 780 m^2 of office and retail space at LNDC Centre will also be completed.

The LNDC industrial development strategy takes cognisance of contemporary sourcing trends. These trends no longer focus solely on the product quality in terms of specification and performance, but rather embrace social dimensions of the product which encompasses, inter alia, compliance with environmental issues, as well as factory design that is attuned to employees favourable working conditions. It is this meticulous approach to compliance which forms part of our ingredients of success in investment attraction.

The Corporation's commendable performance in terms of investment attraction, job creation and additions in Foreign Direct Investment (FDI) stock has however left no room for mediocrity in terms of marketing Lesotho as a destination of choice. The LNDC continues to utilise the information and communication technology at its disposal to create wide spread knowledge about LNDC and its activities. It further continues to engage in targeted investment promotion campaigns, including participation in Government led investment promotion missions. In total, forty-eight presentations were executed in the reporting period. This resulted in twelve site visits and to some degree, the creation of nine new and expansion projects.

Be as it may, challenges still lie ahead. The Corporation's meagre resources impinge on infrastructual development. This situation in turn throttles the acceleration of the industrialisation effort. A low conversion rate in the pipeline projects bears testimony to this notion. This scenario could have far reaching implications for the LNDC investment attraction effort, including losing these hot prospects to competing locations in the region with readily available facilities. Diversification of the existing LNDC assisted projects portfolio also poses a major challenge. To this end, it has been an uphill battle to

STATEMENT BY THE CHIEF EXECUTIVE

(continued)

successfully attract investments in diverse sectors. This has been a function of a host of factors which include: under developed infrastructure in all forms; the current structure of the incentive regime; as well as low skill base in terms of human resources.

There are also other challenges on the macro front. These challenges threaten the survival of Lesotho's flagship sector viz, the garment sector. The imminent phasing out of the Multifibre Arrangement (MFA) in December 2004, coupled with the expiration of third country provision special rule under AGOA which provides for the sourcing of raw materials from third countries, all erode Lesotho's competitive base with potentially disastrous effects on the economy. While there are concerted efforts aimed at extending these trade benefits for a specific period in order to allow time for building of productive and competitive capacity in line with market demands, the situation on the ground is that of uncertainty. In situations of uncertainty, both prospective and existing investors play a "wait and see" game until certainty is restored. The probable result of this scenario is scaled back investment.

In conclusion of my remarks, all is not gloom. The LNDC continues to leave up to its mandate. The figures tell the story. The FDI stock has surged, jobs have spiralled and the LNDC income position has improved. All these are results of express teamwork and commitment from both Management and Staff. Their individual and collective effort is once again acknowledged.

S M Mohapi

Chief Executive

REPORTS FROM THE DIRECTORATES

1. HUMAN RESOURCES DIVISION

Following the Corporation's major restructuring, Management embarked upon an exercise of reviewing and documenting job descriptions for all job categories. This was followed by the documentation of business processes. These exercises were done mainly to ensure that each and every function was analysed in detail in order to eliminate duplication of duties and also to ensure that where there were shared functions, ultimate accountability should be clear.

When these exercises were finalised, Management engaged the services of the consultant to do the job grading as well as reviewing the salary structure. The new grading system and the salary structure will come into effect in April 2003.

(i) STAFF MOVEMENTS

The following staff movements took place during the period under review:

Resignations

Position	Division	Date
Head, Legal & Corporate Secretary	Legal	01/08/2002

Recruitment

Position	Division	Date
Head, Legal & Corporate Secretary	Legal	01/09/2002
Head, Investment Promotion Centre	IPC	01/12/2002
Assistant Accountant	Finance	28/10/2002
Legal Officer	Legal	01/11/2002
Evaluation & Monitoring Officer	Operations	01/12/2002
Asset Management Officer	Asset Management	01/12/2002

(ii) PROMOTIONS AND TRANSFERS

- Registry-cum-Receptionist has been transferred on promotion to the position of Office Support Assistant in Operations division.
- Office Support Assistant has been laterally transferred from Operations division to Assets Management division.
- Administrative Officer has been transferred on promotion from the Legal division to Human Resources division.

These staff movements were meant to promote the smooth running of the Corporation as well as increasing efficiency and effectiveness of the affected staff members.

(iii) STAFF DEVELOPMENT AND TRAINING

The Corporation continued to invest in the development of its human capital. During the year under review, a total of 23 short term courses, workshops and seminars (training opportunities) were offered to staff members.

The following table gives detailed information of these opportunities:

Types of training	Organiser/Training Institution	Participants
Corruption workshop	Institute for Security Studies	Chief Internal Auditor and Accountant
Advanced Seminar for Chief Executives	Commonwealth Fund for Technical Co-operation (CFTC) and National University of Singapore Business School	Chief Executive
Incentive and Salary Structuring	Marcus Evans	Head, Human Resources
Managing Fraud and Corruption Risk	Institute of Internal Auditors	Senior Internal Auditor
Mastering Website Fundamentals	CS Holdings	Systems Administrator
Super Life Skill II	Quadrant Training	Human Resources Officer
Corporate Accountability Conference	Marcus Evans	Chief Internal Auditor, Financial Controller & Senior Accountant
Business Writing Series	ExecuPrime	Two Office Support Assistants
Reception and Telephone Skills	ExecuPrime	Receptionist
Business Development Service Provider (BDS) Conference	SMME Promotion Project	Head, Entrepreneurial Development
Financial Markets Presentation	Letsema Investment Holdings	Financial Controller, Head Operations, Senior Project Mngr & 2 Project Managers
Project Management	Marcus Evans	Senior Project Mngr. & Project Manager
Risk Management and the Internal Auditor	Institute of Internal Auditors	Chief Internal Auditor, Snr Internal Auditor & Internal Auditor
e-HR	Vichada Communications	Head, Human Resources & Systems Administrator
Strategic Planning and Change Management in Development Finance Institutions (DFIs) in Africa	Association of African Development	Chief Executive
Supporting Microsoft Windows 2000 Professional Server	C.S. Holdings	Systems Administrator
Super Effective Customer Service	Vichada Communications	Customer Service Officer
Advanced Management Training for Executive Assistants	Institute for Development Management	Three Office Support Assistants
Human Resources Practices – Reaching the Peak	Quadrant Training	Head, Human Resources & Human Resources Officer
HR Auditing: Measuring Tools for Driving HR efficiently	Lisho Events Management	Internal Auditor & Human Resources Officer
6th Annual PA & Executive Secretary Symposium	Marcus Evans	Personal Assistant & Office Support Assistant
Project Management	Regenesys School of Public Management	Project Manager and Project Officer
Advanced Customer Care Programme	ExecuPrime	Office Support Assistants, Customer Service Officer & Human Resources Officer

2. INVESTMENT PROMOTION CENTRE

(i) THE INVESTMENT CLIMATE

The year under review was marked by bright prospects which unfolded in the investment environment. Lesotho's certification under the African Growth and Opportunity Act (AGOA), which came into effect in the preceding year translated into tangible and commendable results in the reporting period. By the financial fall, Lesotho had transformed into a shining example of sub-Sahara Africa by becoming the number one supplier of clothing and textile products to the United States (US) under the AGOA initiative.

Canada also opened its market on a preferential basis to all qualifying Lesotho made products, with a special variation that provides for duty free and quota free access for clothing and textile products. The European Union (EU) also set in motion a process of developing Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) states. This initiative is intended, inter alia, to provide a catalyst for ACP trade and development, as well as to foster regional integration in order to meet the challenges of globalisation. All these additional initiatives provide potential positive spin offs for Lesotho's economy in terms of market diversification and economic development.

On the local front, the Government of Lesotho instituted interventions that seek to enhance the investment environment. These included already on-going programmes such as the Poverty Reduction and Growth Facility (PRGF). The new interventions initiated in the reporting period include: The Investment Policy Review (IPR) as well as the Integrated Framework (IF) for trade capacity.

All these developments form a solid base from which successful investment attraction and facilitations campaigns can be launched.

(ii) THE INVESTMENT PROMOTION PROGRAMME

(a) Promotional Activities

The Investment Promotion Centre (IPC) marketing strategy continues to centre around export promotion and vertical integration. The Divisional investor targeting process has been a function of opportunities and constraints as dictated by the Lesotho's investment landscape. The thrust of the investment promotion strategy is the attraction of market-seeking investors in light manufacturing operations who are in search of ideal investment locations.

The promotion programme has been focused in part in the Republic of South Africa (RSA). RSA is a neighbour with a strong potential as a source of inward investment. RSA however remains largely untapped as a source of investment inflows into Lesotho. The investment programme has also been directed at prospects outside RSA. The tendency has been to form part of Government-led investment promotion missions abroad. In line with diversification objectives the target group has been those international investors seeking to supply regional markets including the Southern African Customs Union (SACU) with their produce.

48 presentations were executed in the reporting period. The Division also played host to 12 site visits. 9 new projects were implemented in the reporting period.

Chart 1 depicts trend in investment promotion activities over a five year period.

REPORTS FROM THE DIRECTORATES

(continued)

Investment Promotion Performance 1998 – 2003

Chart 1

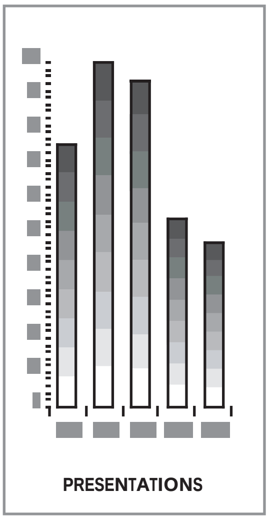


Chart 2

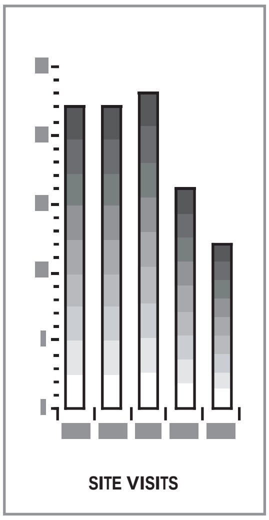


Chart 3

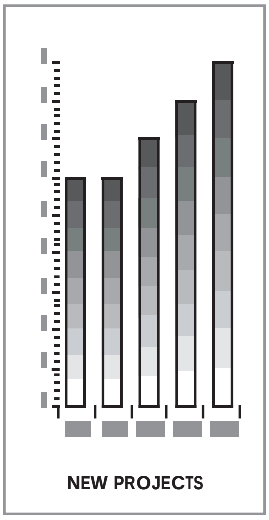
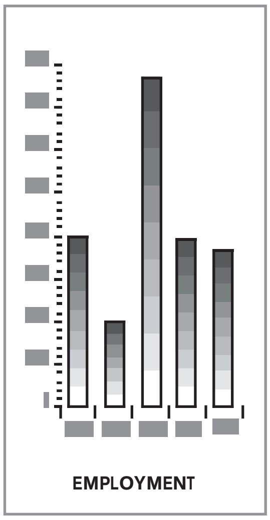


Chart 4



(b) Export Performance

Developments in the investment environment brought about positive economic spin-offs for Lesotho. For the first time in history, the LNDC through its assisted projects became a number one employer with an aggregate 44 000 jobs created, followed by the Government of Lesotho. As has been the case in the preceding year, exports on clothing and textile products to the United States market registered phenomenal growth. This time around a 49% growth from US$215 million in 2002 to US$320 million worth of exports in 2003. This figure represents 80% of Lesotho's manufactured exports. Tangible additions in Foreign Direct Investment (FDI) were also registered in the reporting period.

Attractiveness and flexibility of markets dictate the direction of trade and investment in export led economies. AGOA has been a clear demonstration of this notion for Lesotho. To illustrate, in 1999 SACU accounted for 54% of Lesotho's manufactured exports while the United States accounted for 46% of Lesotho's manufactured exports. There was however a paradigm shift in the direction of Lesotho's exports as a result of Lesotho's certification under AGOA initiative. In 2003 the United States accounted for 80% of these exports, while SACU accounted for 19%. Charts 3 to 5 depict finer details of exports trend and destination.

The following chart highlights trend in clothing and textile export performance over a 5 year period.

Chart 5
US imports of clothing and textile products from Lesotho for the calendar years 1999 – 2003 (million US$)

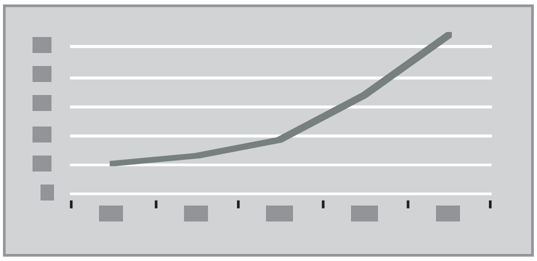


Chart 6

Export trend (million maloti)

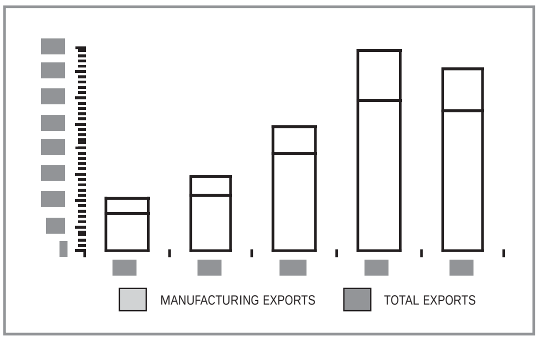


Chart 7

Destination of exports (million maloti)

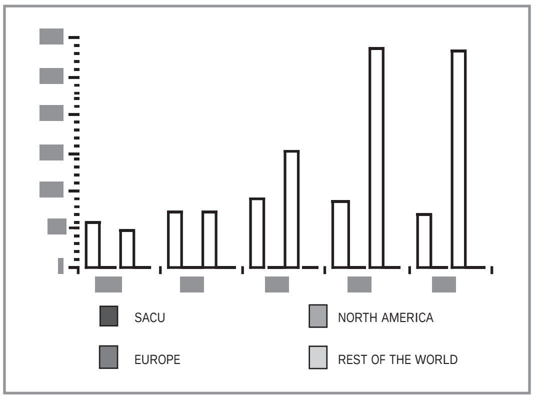
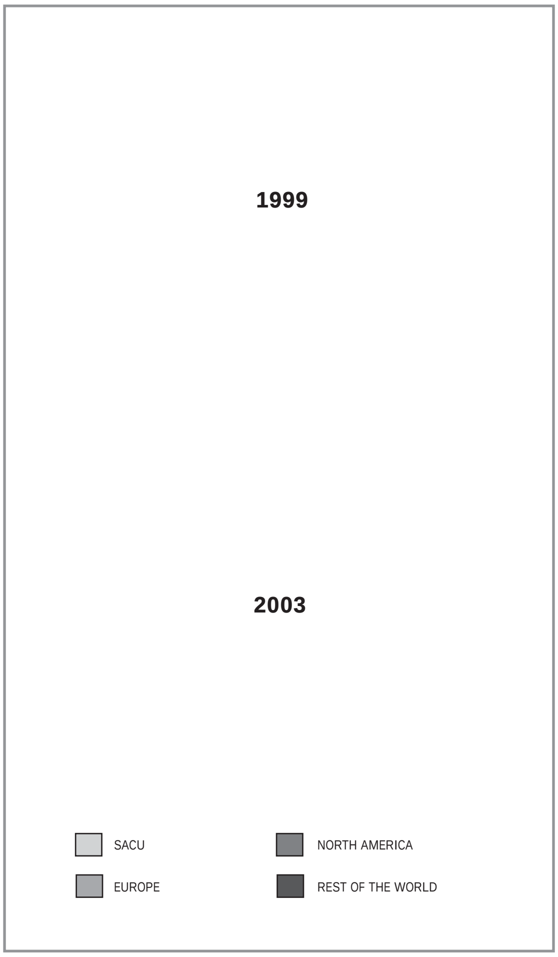


Chart 8

Destination of exports (in %)



(c) Aggregate Pipeline Projects

The Corporation maintained a healthy projects pipeline in the reporting period. The aggregate pipeline is the lifeblood of the Corporation's growth prospects. It demonstrates the investors' confidence in Lesotho as a destination of choice for their investments. To this end, LNDC's aggregate pipeline is characterised by the predominance of clothing and textile projects, accounting for 50% share of the total portfolio.

Successful implementation of these projects will translate into M164.2 million worth of new investment stock, with potential to create additional 9000 new jobs.

(iii) CHALLENGES

Lesotho's certification under AGOA has opened new trade and investment opportunities for Lesotho. Lesotho has to this end, succeeded in taking advantage of these opportunities. There are however challenges that need to be overcome to guarantee continued and sustainable success in export performance. Key challenges include:

(a) Infrastructural development

Space is in short supply in existing LNDC's estates to facilitate construction of new factory spaces in order to house prospective projects in the aggregate pipeline. Development of new industrial estates is on the cards, progress in this regard is however slow. All these developments undermine the implementation of projects on LNDC's aggregate pipeline. This in turn acts as an inhibitor to the Corporation's growth and development objectives, including possible investment deflection to competitor countries which can readily provide infrastructural facilities.

(b) Slow integration of clothing and textile sector

The integration of the clothing and textile sector is an imperative to guarantee continued preferential access to the United States market and other international markets. Little progress has been registered in this regard. Concerted effort is required to step up LNDC's performance in pursuit of integration objectives.

3. ENTREPRENEURIAL DEVELOPMENT DIVISION

(i) THE DIVISIONAL MANDATE

The Entrepreneurial Development Division was established to foster participation of Basotho owned in medium to large-scale industrial investment. This is done through myriad interventions.

(ii) INTERVENTIONS

The following interventions are geared towards the advancement of the local Entrepreneurs.

- Preparation of business plans
- Preparation of business profiles
- Studies (pre feasibility and feasibility)
- Entrepreneurship training
- Market studies
- Search for technology
- Technical assistance
- Search for partners
- Identifying alternative sources of finance

(iii) PERFORMANCE

The division carried out numerous activities during the financial year 2002/2003. These were marketing activities, activities aimed at improving business environment of the entrepreneurs and poverty alleviation through development of entrepreneurs.

(iv) MARKETING ACTIVITIES

Marketing activities of the division were in the form of presentations to both groups and individual companies. Group presentations were made to more than six (6) interest groups. All of the presentations were made to market the activities of the division with the exception of two. The two were done to publicise the Southern African International Business Linkages (SAIBL). The presentations combined resulted in number of inquiries and additional registrations into the SAIBL programme.

One on one marketing was also used where there was a specific project that had to be marketed. At least two projects were marketed successfully in this manner i.e. the Brake Pads Manufacturing Project and Paving Blocks Projects.

The year under review the division was part of a government led delegation to India. This generated more than seven projects of which the Corporation is following up on two, aggressively.

(a) Improving Business Environment

Improving business environment for the SMME's and Basotho entrepreneurs in general is of paramount importance for the advancement of the private sector. It is with this in mind that the division has been a part of MTICM initiative to draft the SMME Policy. The draft policy is now going through due process towards implementation.

The division also embarked on the drafting of business linkages programme for Lesotho. The programme will make a number of recommendations to the LNDC and Government for further improvement of business environment for Lesotho entrepreneurs. The programme will form a major part of the division's core activities in the next financial year and beyond.

(b) Poverty Alleviation Activities

The Government of Lesotho (GOL) is increasingly concerned about the ever-rising levels of unemployment in the Kingdom. It is concerned about food security, which has been greatly undermined by droughts during the last decade. The decline in economic growth, reduced revenue from Southern African Custom Union (SACU), reduced remittances from South African mines, low levels of investment and the relatively rapid population growth have all tended to undermine the government's efforts to promote productivity and improve the quality of life of its population. GOL finds it imperative to explore all possible avenues to promote economic growth. A Diagnostic Trade Integration Study (DTIS) identified a number of sector level interventions, which have a high potential for reducing poverty in the country. One such sector is the agro-processing sector. More than 80 % of Lesotho's population lives in rural areas and is engaged in farming activities. It is evident that if trade is to have an impact on poverty reduction, it is important to focus on agriculture and the agro-processing industry to enable Lesotho to benefit from the global trading system.

Against this backdrop, Government has put together a task force to specifically facilitate putting into place two projects that are geared towards poverty alleviation. These are a Mushroom project and Peach project. The LNDC through the Division is an active member of this task team.

The table below provides a brief synopsis of the project pipeline progression since 2000/2001to-date:

Table 1

Financial year	2000/2001	2001/2002	2002/2003
Projects	7	12	17
Employment potential	1 113	3 000	1 002
Total project cost (M million)	34,3	82,4	71.0

(v) CHALLENGES

The division is faced with both external and internal challenges.

Externally, the division has to stand up to the following major challenges:

- Perception that the division is a window for Small Medium Enterprises within the LNDC.
- Perceptions about LNDC assisting foreign investors only.
- Small entrepreneurial base in Lesotho.
- Declining financial assistance.

Internally, the division is faced with the following challenges:

- Over reliance by the Corporation on the lines of credit from foreign financiers such as the African Development Bank for project finance.
- Lack of bankable projects.

4. OPERATIONS DIVISION

(i) INTRODUCTION

The report summarises the activities which were carried out during the period under review.

(ii) SUBSIDIARIES AND ASSOCIATES COMPANIES AND OTHER INVESTMENTS

The portfolio stood at nine (9) companies broken down into two (2) subsidiaries, four (4) associates and three (3) other investments. The total employment for the portfolio was 1 797.

(a) Summary of performance of the Equity Portfolio

The aggregate sales and profits of the portfolio were M610 million and M79 million respectively.

The sectoral performance shows Agro Section as the best performer with 72% and 73% achieved in terms of sales and profits respectively. The rest of the sectors' sales and profits were 13% and 4%, 6% and 13% and 9% and 10% for building and construction, essential services and wholesale and retail.

(b) Structure of the Equity Portfolio

Table 1 below summarises the structure of the portfolio indicating LNDC shareholding, jobs, activity and market.

Table 2

Structure of the Equity Portfolio as at 31 March 2003

Subsidiaries	Jobs	Activity	Market
Lesotho Brewing Company	369	Brewing	Domestic
Loti Brick	131	Brick manufacturing	Domestic/Export
Associate companies			
Lesotho Milling Company (Lesotho Foods)	288	Milling	Domestic
Cashbuild	59	Wholesale	Domestic
Maseru Sun	240	Hotel	Domestic
OK Bazaars	103	Retail	Domestic
Other Invesments			
Lesotho Housing	56	Housing	Domestic
Frasers	450	Retail	Domestic
LPC	101	Pharmaceuticals	Domestic/Export
Total	**1 797**		

(iii) LEASEHOLD COMPANIES

During the period under review, there were leasehold companies with employment totalling 43 525. The leasehold portfolio consists of textile and clothing, shoes and leather, electronics, agro and plastic sectors. The portfolio is still dominated by the apparel sector.

(a) Projects implemented

Nine (9) new projects were implemented during the period as indicated by the table below:

Table 3

NAME	LOCATION	PRODUCT	EMPLOYMENT
Alleycat Clothing	Maputsoe	Jeans	826
Astoria Bakery	Maputsoe	Bread/Confectionery	42
Baneng Lesotho	Ha Thetsane	Knitted Garments	920
CTM Orthopaedics	Maseru	Orthopaedic Prosthesis	4
Ever Unison	Ha Nyenye	T-shirts/pants	1 400
Lesotho Paper and Box	Ha Nyenye	Paper Boxes	21
Procom	Ha Nyenye	Uppers and Soles	25
Sweat Sun	Maseru	T-shirts	300
New Epoch	Ha Nyenye	T-shirts	120
Total			**3 658**

The total number of jobs created as a result of implementation of new projects is 3 658.

Table 4 **Summary of annual performance report by sector as at 31 March 2003 (M'000)**

	SALES				PRE-TAX PROFITS				
	YEAR TO DATE			PRIOR YEAR	YEAR TO DATE			PRIOR YEAR	
COMPANY/SECTOR	**BUDGET**	**ACTUAL**	**VARIANCE**	**ACTUAL**	**BUDGET**	**ACTUAL**	**VARIANCE**	**ACTUAL**	**NET PROFIT %**
AGRO									
LESOTHO MILLING	237 417	172 118	(65 299)	169 422	12 749	12 423	(326)	18 719	7,22%
LESOTHO BREWING	285 038	249 799	(35 239)	237 870	43 195	44 274	1 079	43 967	17,72%
L.P.C.	23 304	19 807	(3 497)	17 666	2 327	1 021	(1 306)	729	5,15%
TOTAL	545 759	441 724	(104 035)	424 958	58 271	57 718	(553)	63 415	
BUILDING/CONSTRUCTION									
LOTI BRICK	17 440	15 042	(2 398)	12 067	761	646	(115)	(1 059)	4,29%
CASH BUILD	66 323	61 189	(5 134)	37 287	4 978	2 925	(2 053)	1 747	4,78%
TOTAL	83 763	76 231	(7 532)	49 354	5 739	3 571	(2 168)	688	
ESSENTIAL SERVICES									
MASERU SUN	37 014	37 574	560	34 858	10 332	10 503	171	10 261	27,95%
TOTAL	37 014	37 574	560	34 858	10 332	10 503	171	10 261	
WHOLESALE/RETAIL									
OK BAZAARS	50 345	53 988	3 643	48 150	10 965	7 692	(3 273)	6 242	14,25%
TOTAL	50 345	53 988	3 643	48 150	10 965	7 692	(3 273)	6 242	
GRAND TOTAL	716 881	609 517	(107 364)	557 320	85 307	79 484	(5 823)	80 606	

5. ASSET MANAGEMENT

(i) BACKGROUND

Lesotho National Development Corporation has a strong property base, both commercial and industrial. Commercial property involves the provision of retail and office centers while industrial property involves the provision of factory shells and serviced sites. The involvement of the Corporation in the provision of housing is minimal.

(ii) INDUSTRIAL PORTFOLIO

The period under review has evidenced an improvement in the occupancy level of the industrial portfolio from 92,35% to a current level of 97%. The position per estate is as follows:

(a) Maseru Industrial Estate

Although centrally located about 2km from the city center of Maseru, the performance of this estate has been low. The total vacant space was 3 120m^2, which translates into 8,75% vacancy rate. The major contributors to this vacancy were the following: – closure of LMA Garments with 2 220m^2; closure of One Slice Bread with 500m^2 and an obsolete building of ex-M & C Construction with 397m^2 floor space.

(b) Thetsane Industria Estate

This estate is located 5km from the city center of Maseru and boasts 100% occupancy.

(c) Maputsoe Industrial Estate

Performance in this estate stood at 97.35% occupancy and major contributor is the closure of Dicon Clothing with 1000m^2 factory space.

(d) Nyenye Industrial Estate

The performance of this estate dropped from 100% occupancy to 97,75% by the year end, due to closure of Supreme Bright with 2000m^2 factory space.

(e) Mafeteng Industrial Estate

This is a new estate, which has been partially developed, and only one factory shell exists at this estate and is fully occupied.

(f) Commercial Portfolio

This sector used to enjoy 100% occupancy before the establishment of Sefika Shopping Centre. Kingsway mall enjoyed 81% occupancy in the retail sector while LNDC Centre performed at 95,75% occupancy level. On the office sector, Kingsway Mall had an occupancy level of 95,31%, which is within the planning target rate margin of 95%, and LNDC Centre at 95,75% occupancy level.

(g) Residential Portfolio

This is the sector, which continues to perform extremely well in terms of occupancy, and it has enjoyed 100% occupancy level throughout the reporting period.

(h) Property development and environmental management

This is the sector, which continues to perform extremely well in terms of occupancy, and it has enjoyed 100% occupancy level throughout the reporting period.

The period under review saw the development of infrastructure services such as roads and water reticulations for Nien Hsing International at Thetsane Industrial Estate. Major development activities took place at Ha Nyenye aimed at providing premises for two new investors with approximately 13 900 square meters of general factory space commenced during the year and 4,000 square metres of factory space was added to the property portfolio in the reporting period. Overall, the demand for industrial space continues to be high. In fact, the same can be said of the commercial property. The Corporation took advantage of this situation by developing LNDC Centre Phase 2 to provide quality office space and retail space.

The Corporation continues to address environmental issues in a cost-effective and planned manner in giving priority to prevention as well as remediation.

The Environmental Impact Assessment (EIA) tool was used to assess the environmental and socio-economical impacts of the proposed industrial estates of Mohale's Hoek and Ha Belo. C& Y Garments and CGM Industries were assisted in reducing their environmental impacts by providing a dedicated industrial sewer from Nien Hsing site to Ratjomose Wastewater Treatment Plant of Water and Sewerage Authority. The said companies had established wastewater treatment and recycling plants within their premises.

The provision of environmental infrastructures is of utmost impotence to the Corporation and therefore, the pedestrian walkways; pedestrian bridge and storm water systems were developed at Thetsane Industrial Estate during the reporting period.

Highlights of the property portfolio performance over the reporting period are presented in the tables below:

Table 5

SIZE OF PROPERTY PORTFOLIO 2002/2003

	YEAR ENDED 31 MARCH 2003		1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
	UNITS/ BUILDINGS	LETTABLE AREA (m^2)	UNITS	LETTABLE AREA (m^2)	UNITS	LETTABLE AREA (m^2)	UNITS	LETTABLE AREA (m^2)	UNITS	LETTABLE AREA (m^2)
Commercial Portfolio	9	29 000	9	29 000	9	29 000	9	29 000	9	29 000
Shopping Centres	2	5 014	2	5 014	2	7 014	2	7 014	2	7 014
Residential Portfolio	8	5 000	8	5 000	8	5 000	8	5 000	8	5 000
Industrial Portfolio	119	143 400	119	143 400	119	143 400	123	147 400	123	147 400
Office Blocks	5	16 350	5	16 350	6	18 350	6	18 350	6	18 350
	137	198 764	137	198 764	138	202 764	148	206 764	148	206 764

Table 6
SECTORAL DISTRIBUTION 2002/2003

	Year Beginning	Year End
Industrial Portfolio	143 400m^2 (72,1%)	147 400m^2 (71,3%)
Commercial Portfolio	29 000m^2 (14,6%)	29 000m^2 (14,0%)
Residential Portfolio	5 000m^2 (2,5%)	5 000m^2 (2,4%)
Office Blocks	16 350m^2 (8,2%)	18 350m^2 (8,9%)
Shopping Centres	5 014m^2 (2,6%)	7 014m^2 (3,4%)

6. FINANCE DIVISION

(i) INTRODUCTION

When looking at the Group's Financial Statements for the Year ended 31st March 2003 herewith presented, it can be observed that, overall, the Group's financial performance and position improved quite much when compared with the previous year's. The Group's profitability seems to have tremendously improved when compared with that of last year, resulting in an accelerated growth in the asset base. Two factors can be observed to have been the major contributors to the performance namely increased turnover and satisfactory management of operating costs. The ratios below provide further analysis to the Group's profitability, stability and liquidity.

(ii) RATIOS

	GROUP				CORPORATION			
	% INCREASE/ (DECREASE)	Increase/ (Decrease) M'000	2003 M'000	2002 M'000	%INCREASE/ (DECREASE) M'000	Increase/ (Decrease) M'000	2003 M'000	2002
Turnover	10.2	24,229	262 099	237 870	–	–	–	–
Profit before tax	51,4	18 740	55 222	36 482	(42,9)	(6 707)	8 929	15 636
Retained income	53,0	15 646	45 160	29 514	(43,7)	(6 707)	8 689	15 396
Total assets	35,0	129 312	498 994	369 682	37,3	111 075	408 850	297 775
Equity	54,8	130 837	369 537	238 700	67,2	112 503	279 970	167 467
Long-term liabilities	(1,2)	(1 525)	129 457	130 982	(1,1)	(1 428)	128 880	130 308
Return on capital employed	12,1	1,2%	11,1%	9,9%	(58,5%)	(3,1%)	2,2%	5,3%
Return on equity	(1,4)	(0,2%)	12,2%	12,4%	(66,3)	(6,1%)	3,1%	9,2%
Debt equity ratio	(36,2)	(19,9%)	35,0%	54,9%	(40,8%)	(31,8%)	46,0%	77,8%
Quick ratio	0,0%	0,0%	1,4	1,4	3,8	0,1	2,7	2,6
Current ratio	7,4	0,1	1,8	1,7	3,8	0,1	2,7	2,6
Earnings per share (Lisente)	52,5	43	125	82	(43,9)	(19)	24	43
Assets turnover ratio (Times)	(12,5)	(0,1)	0,5	0,6	–	–	–	–

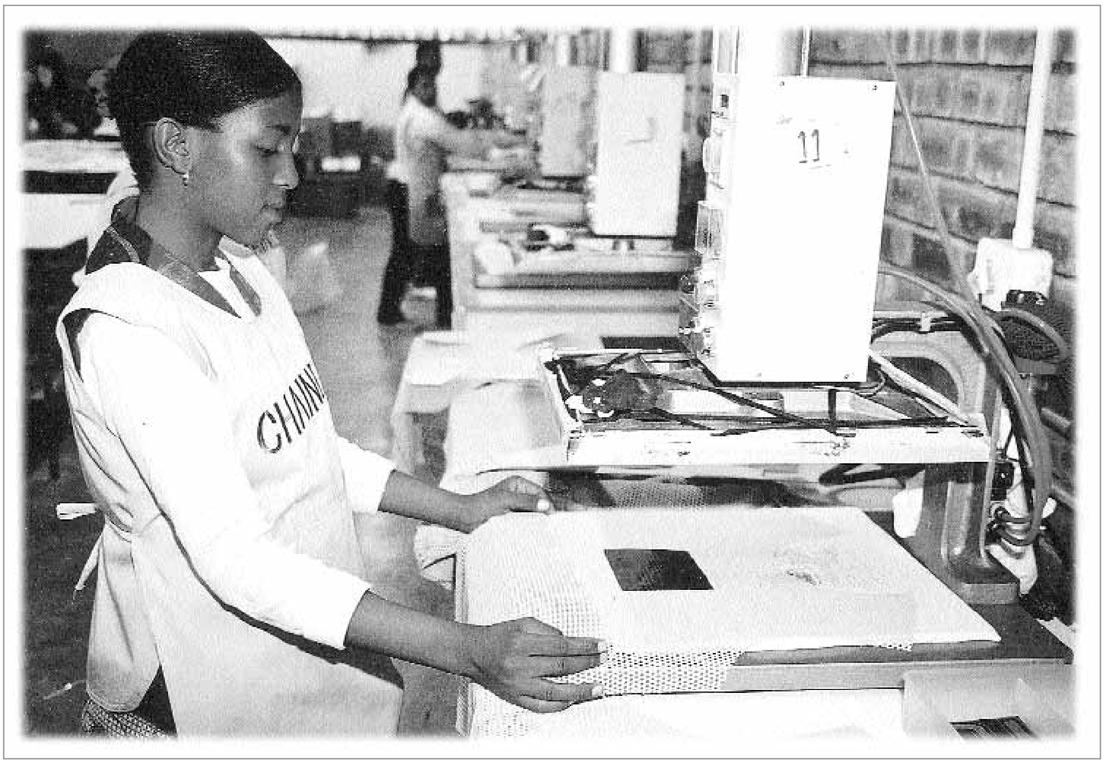
From the above ratio analysis, it can be realised that the Group's turnover increased from M237,9 million to M262,1 million (i.e. 10,2%). Profit before tax increased from M36,5 million to M55,2 million (i.e. 51,4%) while profit for the year attributable to the ordinary shareholders increased from M29,5 million to M45,2 million (i.e. 53,0%). The Group's return on equity decreased by a marginal 1.4% although its return on capital employed increased by 12,1%. This positive trend in profitability resulted in increase in the earnings per share (EPS) from 82 Lisente to 125 Lisente (i.e. 12,5%).

It can be deduced from the ratio analysis that the Group's profitability could not, per se, have been influenced by the Corporation's performance but by that of other members of the Group through, amongst others as stated above, increase in sales and reduction in costs. The conclusion is drawn from the fact that, as compared with the previous year, the Corporation's profitability seems to have generally decreased, resulting in a decrease in the EPS from 43 Lisente in 2001/2002 to 24 Lisente (i.e. 43,9%) in 2002/2003. The downwards slope in the Corporation's performance was largely caused by, amongst others, provision for loses in relation to loans it made to other members of the Group. However, its contribution to the Group's positive performance could have been through debt management. Its long-term debt decreased from M130,3 million in the previous year to 128,9 million (i.e. 1,1%) in the Year 2002/2003. This is further demonstrated by its debt/equity ratio which came down from 77,8% in 2001/2002 to only 46,0% (i.e. a decrease of 40,8%) in 2002/2003. The overall effect of the Corporation's debt management factors as well as of the Group's own debt management efficiencies (e.g. a decrease of 36,2% in debt in 2002/2003), might have been a reduction in interest paid/payable, thus an increase in profit. This profit was retained for expansion. Its utilisation, including employment of the prior year accumulated profits and some external financing, resulted in the increase of 35% in the Group's total assets.

Both the Group and the Corporation have managed to maintain their liquidity at acceptable market benchmarks. This means that whenever their short-term commitments fall due, they are able to meet them with relative ease. This is depicted by their respective current and quick ratios. The Corporation's quick ratio and current ratio are 2,7 times in 2002/2003 and 2,6 times in 2001/2002. On the other hand, the Group's quick ratio for 2002/2003 is 1,4 times while its current ratio for the same year is 1,8 times (i.e. 1,4 times and 1,7 times, respectively, in 2001/2002). This positive liquidity trend seems to have been maintained largely due to increase in cash generated from operations by the Corporation.

(iii) CONCLUSION

The observation is that the Group's overall financial performance has improved. Factors that seem to have largely contributed to this performance are increase in sales, efficient control of operating costs and debt management. The overall benefit of this profitability was that, on the one hand, the Group was able to maintain its liquidity at competitive market levels. On the other hand, it was that the Groups was able to expand its assets base by, at least, 35% during the year.



FINANCIAL STATEMENTS

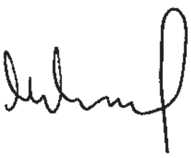
for the year ended 31 March 2003

Contents

Directors' Approval

The financial statements which appear on pages 29 to 48 were approved by the board of directors on **DATE** 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

We have audited the financial statements and group financial statements for the year ended 31 March 2003 set out on pages 29 to 48. 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

In our opinion, these financial statements fairly present the financial position of the Corporation at 31 March 2003 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 Corporation Order 1990.

GROUP

In our opinion the financial statements fairly present the financial position of the Corporation and Group at 31 March 2003 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 Corporation Order 1990.

AUDITORS

STATEMENT OF GROUP ACCOUNTING POLICIES

1. PRINCIPAL ACTIVITIES

The Corporation operates under the Lesotho National Development Corporation Order No. 13 of 1990 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 development of 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 controlling interest.

2.2 Subsidiary Companies

Interest in subsidiary companies in the Corporation's own financial statements 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 significant interest.

Associated companies are dealt with in the Corporation under the leave 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 statements 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.

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.

STATEMENT OF GROUP ACCOUNTING POLICIES

(continued)

2.6 Depreciation of Fixed Assets, Land and Buildings:

Since the commencement of the Land Act 1979, title to land in urban areas is being converted into leases and the length of such leases is as follows:

- not less than 10 years;
- in the case of land held for residential purposes, not more than 90 years;
- in the case of land held for commercial, industrial or hotel purposes, not more than 60 years;
- in the case of land held for purposes of petroleum and oil sales and storage, not more than 30 years.

The value of land and buildings is being amortised on the straight line basis over the shorter of the term of the lease or 50 years.

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 actual 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 Exchange Differences

Exchange differences araising 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 31 March 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 2003

	Notes	Corporation 2003 M'000	Corporation 2002 M'000	Group 2003 M'000	Group 2002 M'000
Turnover	13	**–**	–	**262 099**	237 870
Operating income	14	**8 512**	9 496	**47 065**	34 445
Income from associates		**2 917**	6 140	**8 157**	2 037
Income before taxation		**11 429**	15 636	**55 222**	36 482
Taxation	15	**–**	–	**(7 322)**	(6 728)
Income after taxation		**11 429**	15 636	**47 900**	29 754
Minority interests		**–**	–	**(18 106)**	(18 247)
Income from ordinary activities		**11 429**	15 636	**29 794**	11 507
Exceptional item		**(2 500)**	–	**(2 500)**	–
Net income for the year		**8 929**	15 636	**27 294**	11 507
Preference share		**(240)**	(240)	**(240)**	(240)
Prior year adjustment		**8 689**	15 396	**27 054**	11 267
		(3 353)	362	**(3 353)**	362
At beginning of year		**66 582**	50 824	**101 618**	89 989
At end of year		**71 918**	66 582	**125 319**	101 618

BALANCE SHEET

at 31 March 2003

	Notes	Corporation 2003 M'000	Corporation 2002 M'000	Group 2003 M'000	Group 2002 M'000
CAPITAL EMPLOYED					
Share capital	1	**40 000**	40 000	**40 000**	40 000
Non-distributable reserves	2	**168 052**	60 885	**170 830**	63 671
Retained income		**71 918**	66 582	**125 319**	101 618
Shareholders' funds		**279 970**	167 467	**336 149**	205 289
Outside shareholders' interest		**–**	–	**33 388**	33 411
Long-term loans	3	**128 880**	130 308	**128 880**	130 308
Deferred liabilities		**–**	–	**577**	674
		408 850	297 775	**498 994**	369 682
EMPLOYMENT OF CAPITAL					
Fixed assets	4	**326 444**	212 212	**395 261**	278 582
Interest in subsidiary companies	5	**20 321**	23 506	**–**	–
Interest in associated companies	6	**746**	3 343	**28 159**	23 138
Other investments	7	**11 497**	10 221	**19 090**	10 221
Loan debtors	8	**5 468**	8 215	**5 468**	8 215
		364 476	257 497	**447 978**	320 156
CURRENT ASSETS					
Stocks	9	**–**	–	**23 956**	23 797
Accounts receivable	10	**1 910**	10 448	**14 005**	27 209
Short term investments		**64 971**	54 245	**66 498**	56 064
Bank balances and cash		**2 894**	1 386	**8 335**	14 507
		69 775	66 079	**112 794**	121 577
CURRENT LIABILITIES					
Bank overdrafts		**–**	–	**687**	173
Accounts payable		**24 681**	25 321	**55 458**	64 682
Taxation		**–**	–	**4 913**	6 716
Preference dividend		**720**	480	**720**	480
		25 401	25 801	**61 778**	72 051
NET CURRENT ASSETS		**44 374**	40 278	**51 016**	49 526
		408 850	297 775	**498 994**	369 682

CASH FLOW STATEMENT

for the year ended 31 March 2003

		Corporation		Group	
	Note	**2003 M'000**	2002 M'000	**2003 M'000**	2002 M'000
Net cash flow from operations	16.1	**38 959**	32 784	**63 908**	65 224
Returns on investments	16.2	**(5 822)**	(6 612)	**(7 392)**	(5 041)
Capital expenditure	16.3	**(26 728)**	(13 645)	**(41 331)**	(23 838)
Dividends paids		**–**	–	**(6 370)**	(18 130)
Taxation paid		**–**	–	**(9 222)**	(8 505)
Management of liquid resources	16.4	**7 253**	4 420	**205**	(6 469)
Financing	16.5	**(1 428)**	175	**(3 950)**	175
Increase in cash in year		**12 234**	17 122	**3 748**	3 416
Cash at beginning of year		**55 631**	38 509	**70 398**	66 982
Cash at end of year	16.6	**67 865**	55 631	**74 146**	70 398

NOTES TO THE FINANCIAL STATEMENTS

		Corporation		Group	
		2003	2002	**2003**	2002
		M'000	M'000	**M'000**	M'000
1.	**SHARE CAPITAL**				
	Authorised				
	55 000 000 shares of M1 each	**55 000**	55 000	**55 000**	55 000
	Issued and fully paid				
	36 000 000 shares of M1 each	**36 000**	36 000	**36 000**	36 000
	4 000 000 6% cumulative non-voting preference shares of M1 each	**4 000**	4 000	**4 000**	4 000
		40 000	40 000	**40 000**	40 000
2.	**NON-DISTRIBUTABLE RESERVES**				
2.1	**Development grants**				
	Grants from Lesotho Government:				
	At beginning of year	**11 382**	7 200	**11 382**	7 200
	Received during the year	**12 768**	4 342	**12 768**	4 342
	Transferred to income statement	**–**	(160)	**–**	(160)
	At end of year	**24 150**	11 382	**24 150**	11 382
	Capital grants				
	At beginning of year	**–**	–	**559**	559
	Adjustment during the year	**–**	–	**(157)**	–
	At end of year	**–**	–	**402**	559
	Total development grants	**24 150**	11 382	**24 552**	11 941
2.2	**Bonus shares**				
	Capitalisation of post acquisition profits earned by a subsidiary				
	At beginning of year	**858**	858	**858**	858
	At end of year	**858**	858	**858**	858

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation 2003 M'000	Corporation 2002 M'000	Group 2003 M'000	Group 2002 M'000
2.	**NON-DISTRIBUTABLE RESERVES (continued)**				
2.3	**Share premium**				
	Arising on issue of shares in subsidiary				
	At beginning of year	**–**	–	**–**	373
	Movement during the year	**–**	–	**–**	(373)
	At end of year	**–**	–	**–**	–
2.4	**Unrealised surplus**				
	Surplus on revaluation of land and buildings				
	At beginning of year	**48 645**	48 649	**49 057**	48 649
	Movement during the year	**–**	(4)	**–**	408
	Additions	**94 399**	–	**94 399**	**–**
	At end of year	**143 044**	48 645	**143 456**	49 057
	Arising on the acquisition of subsidiaries				
	At beginning of year	**–**	–	**230**	582
	Movement during the year	**–**	–	**149**	(352)
	At end of year	**–**	–	**379**	230
2.5	**Attributable share in Associated Companies**				
	Capital grant	**–**	–	**457**	457
	Share premium	**–**	–	**400**	400
	Capitalisation of accumulated profits	**–**	–	**328**	328
	Capital redemption fund	**–**	–	**400**	400
		–	–	**1 585**	1 585
	Total non-distributable reserves	**168 052**	60 885	**170 830**	63 671
3.	**LONG-TERM LOANS**				
	Loans outstanding as detailed below:	**136 869**	135 350	**136 869**	135 350
	Less: Current maturities included in accounts payable	**(7 989)**	(5 042)	**(7 989)**	(5 042)
		128 880	130 308	**128 880**	130 308

	Group 2003 M'000	2002 M'000
3. LONG-TERM LOANS		
3.1 Corporation		
Lesotho Bank:		
5% loan repayable by annual instalments 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	**323**	373
European Investment Bank (Industrial Estate)		
5% loan of ECU 1 4 million repayment schedule not yet agreed	**12 319**	14 234
Frasers Limited:		
Interest free loan with no fixed date of repayment	**6**	6
DEG		
6% income notes repayable in frull on 30 December, 2009	**3 248**	3 248
Government of Lesotho:		
IDA		
7% loan repayable in twenty yearly instalments commencing 1 July 2000	**14 282**	15 123
IDA 985		
7% loan repayable in thirty half yearly instalments starting 30 June 1986	**–**	193
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	**144**	166
4% loan repayable in twenty yearly instalments commencing 1 July 2000	**9 675**	7 740
ODA II		
8% loan. Repayable over 25 years commencing 1 July 1991	**231**	241
Carried forward	**41 097**	42 193

		Group 2003 M'000	2002 M'000
3.	**LONG-TERM LOANS (continued)**		
3.1	**Corporation (continued)**		
	Brought forward	**41 097**	42 193
	ODA III		
	8% loan. Repayable over 25 years commencing 1 July 1991	**320**	342
	ODA 1st line of credit		
	7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	**1 654**	1 819
	KFW (HA NYENYE)		
	5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	**7 988**	7 988
	ODA 2nd line of credit		
	7% loan, ODA line of credit. Repayable over 25 years commencing 22 September 1996	**4 523**	4 523
	Public Investment Commissioners		
	13,9% loan repayable after twenty year period commencing April 1996	**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	**6 474**	8 092
	Development Bank of Southern Africa		
	12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	**2 442**	2 932
	GOL – LNDC Centre		
	5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	**13 300**	13 300
	Nedbank Lesotho		
	Interest is charged at prime minus 4% repayable in 10 years starting from 11 November, 2003 after 12 months moratorium	**4 466**	–
	Total Corporation loans	**135 142**	134 067
	Severance pay provision	**1 727**	1 283
		136 869	135 350

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2003	2002	**2003**	2002
		M'000	M'000	**M'000**	M'000
4.	**FIXED ASSETS**				
4.1	**Cost or valuation**				
	Land and buildings	**329 863**	236 330	**372 048**	268 962
	Plant, vehicles, furniture and equipment	**7 488**	6 298	**130 519**	127 546
		337 351	242 628	**502 567**	396 508
	Accumulated depreciation				
	Land and buildings	**6 102**	26 277	**28 594**	41 866
	Plant, vehicles, furniture and equipment	**4 805**	4 139	**78 712**	76 060
		10 907	30 416	**107 306**	117 926
	Net book value	**326 444**	212 212	**395 261**	278 582

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)

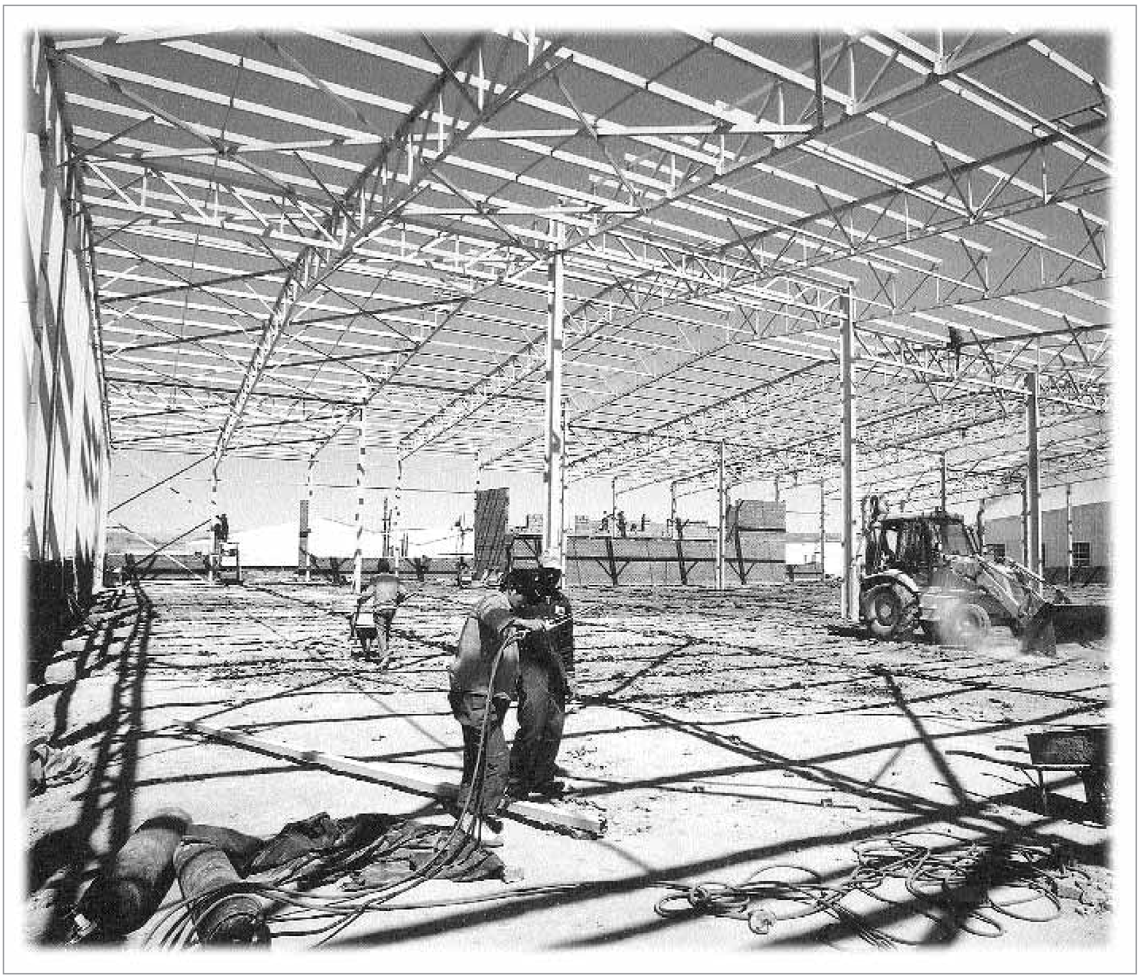
	Name	Principal activity	Equity held 2003 %	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	Net interest 2003 M'000	Net interest 2002 M'000
5.	**INTEREST IN SUBSIDIARIES**							
5.1	**Active subsidiaries**							
	Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	100	100	2 529	–	2 629	2 090
	Lesotho Brewing Company (Pty) Ltd	Brewery	51	2 040	12 240	–	14 280	14 591
	Loti Brick (Pty) Ltd	Brick making plant	73,6	8 032	8 474	(13 094)	3 412	6 825
				10 172	23 243	(13 094)	20 321	23 506

		2003 M'000	2002 M'000
5.2	**Provision for losses in subsidiaries:**		
	Balance at beginning of year	**10 220**	14 196
	Provision reversed	**(539)**	–
	Write-off during the year	**–**	(3 976)
	Increase in provision	**3 413**	–
		13 094	10 220

5.3 Financial statements of subsidiary companies

The financial statements of Loti Brick were not consolidated in view of the fact that, in terms of the Privatisation Act No 9 of 1995, its control has vested in the Privatisation Unit.

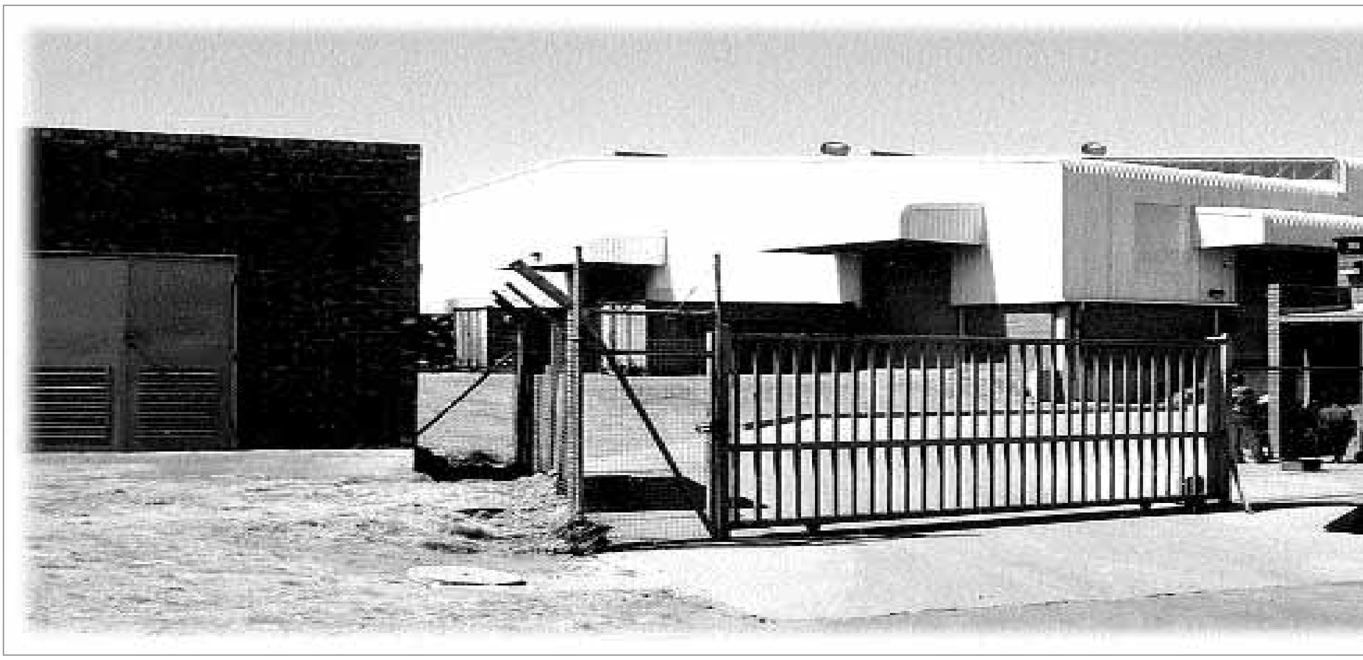
	Corporation		Group	
	2003 M'000	2002 M'000	**2003 M'000**	2002 M'000
6. INTEREST IN ASSOCIATED COMPANIES				
Shares at cost	**776**	1 014	**776**	1 014
Share of non-distributable reserves	**–**	–	**1 585**	1 585
Share of retained income	**–**	–	**25 798**	2 692
Amounts owing	**–**	17 847	**–**	17 847
Provision for losses	**(30)**	(15 518)	**–**	–
	746	3 343	**28 159**	23 138
Directors' valuation			**28 159**	23 138



6. INTEREST IN ASSOCIATED COMPANIES (continued)

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	50	30.06.03
Lesotho Food Industries (Pty) Ltd	Investment in LM Co	66 167	39,7	30.06.03
OK Bazaars Lesotho (Pty) Ltd	Retailers	150 000	50	30.06.03
Lesotho Holdings and Hotel Development (Pty) Ltd	Hotel business	1 200	30	30.06.98
Sun International Lesotho (Pty) Ltd	Hotel and casino	A 20/B 328 291	20	30.06.03
Lesotho Pharmaceutical Corporation	Drug manufacturer	526 000	21	31.03.03
Highland Ceramics (Pty) Ltd	Ceramics tiles	490	49	–
Smart Centre (Maluti) (1988) Ltd	Retailer	62	50	–
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 31.03.02 M'000	Total interest M'000	Note	Total interest 31.03.01 M'000
20	400	2 012	2 432	3	2 316
66	–	15 685	15 751	3	12 450
150	400	5 463	6 013	3	4 486
–	–	–	–	4	–
–	328	2 854	3 182	3	3 370
526	457	(468)	515	3	453
–	–	(17 866)	–	3	3 209
–	–	(202)	781	3	515
14	–	(14)	–		–
776	1 585	25 798	28 159		23 138

		2003 M'000	2002 M'000
6. INTEREST IN ASSOCIATED COMPANIES (continued)			
Notes			
1. All shares of M1 each fully paid			
2. Year ended unless stated otherwise			
3. Based on audited financial statements			
4. Companies which have not started operations investment shown at cost			
CORPORATION			
Provision for losses			
At beginning of year		**15 519**	15 519
Write-off during year		**(15 489)**	–
At end of year		**30**	15 519
7. OTHER INVESTMENTS	**% Holding**		
Unlisted equity shares:			
Lesotho Housing and Land Development Corporation	13	**958**	958
Zero coupon loan stock (RSA Govt. Bond) Corporation	100	**10 539**	9 263
		11 497	10 221
8. LONG-TERM DEBTORS			
Corporation and Group			
Loan debtors at varying rates of interest and repayment terms		**446**	1 228
Unrealised foreign exchange losses (per policy 2.9)		**5 022**	6 987
		5 468	8 215
9. STOCKS			
Group			
Raw materials		**7 187**	6 183
Finished goods and merchandise		**10 659**	8 994
Consumable stores		**4 217**	4 920
Work in progress		**1 893**	3 700
Total stocks		**23 956**	23 797

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2003 M'000	2002 M'000	**2003 M'000**	2002 M'000
10. ACCOUNTS RECEIVABLE				
Realised foreign exchange losses due from Government of Lesotho	**(13)**	690	**(13)**	690
Building rental	**6 364**	11 556	**6 364**	11 556
Provision and other debtors	**(4 441)**	(1 798)	**7 654**	14 963
	1 910	10 448	**14 005**	27 209

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	
	2003 M'000	2002 M'000	**2003 M'000**	2002 M'000
(a) Corporation				
Associates	**610**	–	**–**	–
Third parties	**800**	800	**800**	800
	1 410	800	**800**	800
(b) Group				
Associates	**610**	–	**–**	–
Third parties	**800**	800	**800**	800
	1 410	800	**800**	800

	Corporation		Group	
12. COMMITMENTS				
Capital commitments contracted for:				
– Buildings and equipment	**6 970**	3 336	**6 970**	3 336
Authorised but not committed:				
– Buildings and equipment	**–**	–	**23 000**	10 446
	–	–	**23 000**	10 446
Total capital commitments	**6 970**	3 336	**29 970**	13 782

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation 2003 M'000	Corporation 2002 M'000	Group 2003 M'000	Group 2002 M'000
13.	**TURNOVER**				
	Turnover is the amount receivable by the Group in the ordinary course of business for goods supplied and services rendered.				
14.	**OPERATING PROFIT FOR THE YEAR**				
	Stated after crediting or charging the following:				
	Income				
	Profit/(Loss) on disposal of fixed assets	**62**	142	**(111)**	353
	Interest	**7 203**	6 025	**7 907**	7 621
	Rents	**29 527**	27 147	**29 527**	27 147
	Income from subsidiaries – dividends	**18 870**	18 870	**–**	–
	Expenses				
	Depreciation and amortisation of fixed assets	**6 961**	5 071	**16 589**	12 168
	Auditors remuneration: Audit fees	**105**	228	**253**	347
	Interest	**13 025**	12 637	**15 299**	12 662
15.	**TAXATION**				
15.1	Normal tax on current profits			**7 322**	6 728

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. At 31 March 2001, no provision was made as the Company had tax losses which have yet to be assessed.

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.

		Corporation		Group	
		2003	2002	**2003**	2002
		M'000	M'000	**M'000**	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	**14 303**	15 636	**55 222**	36 482
	Return on investment	**5 822**	6 612	**7 392**	5 041
	Depreciation	**6 961**	5 071	**16 589**	9 096
	Profit on sale of fixed assets	**(62)**	(142)	**111**	(353)
	Amortisation of grants	**–**	(160)	**(157)**	(160)
	Amortisation of containers	**–**	–	**–**	3 071
	Associates income	**–**	–	**(23 107)**	4 103
	Prior year adjustment	**(3 353)**	362	**(3 353)**	362
	Grants received	**12 768**	4 342	**12 768**	4 342
	Revaluation surplus	**(5 378)**	(4)	**(5 378)**	(4)
	Increase in stock	**–**	–	**(159)**	2 838
	Decrease in debtors	**8 538**	1 625	**13 204**	5 735
	Decrease in creditors	**(640)**	(558)	**(9 224)**	(5 329)
	Net cash inflow from operating activities	**38 959**	32 784	**63 908**	65 224
16.2	**Returns on investments**				
	Interest received	**7 203**	6 025	**7 907**	7 621
	Interest paid	**(13 025)**	(12 637)	**(15 299)**	(12 662)
		(5 822)	(6 612)	**(7 392)**	(5 041)
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(26 966)**	(14 225)	**(41 628)**	(28 012)
	Receipts from sale of fixed assets	**238**	(580)	**297**	4 174
		(26 728)	(13 645)	**(41 331)**	(23 838)

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation 2003 M'000	Corporation 2002 M'000	Group 2003 M'000	Group 2002 M'000
16.4	**Management of liquid resources**				
	Decrease in amounts owing by associates	**2 597**	563	**18 086**	703
	Decrease in amounts owing by subsidiaries	**3 185**	9 579	**–**	–
	Increase in outside shareholders interest	**–**	–	**(11 759)**	(1 450)
	Increase in loan debtors	**2 747**	(4 662)	**2 747**	(4 662)
	Increase in other investments	**(1 276)**	(1 060)	**(8 869)**	(1 060)
		7 253	4 420	**205**	(6 469)
16.5	**Financing**				
	Increase/(decrease) in long term loans	(1 428)	175	(3 950)	175
16.6	**Analysis of cash at end of year**				
	Bank balances and cash	**2 894**	1 386	**8 335**	14 507
	Bank overdraft	**–**	–	**(687)**	(173)
	Short term investments	**64 971**	54 245	**66 498**	56 064
		67 865	55 631	**74 146**	70 398

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