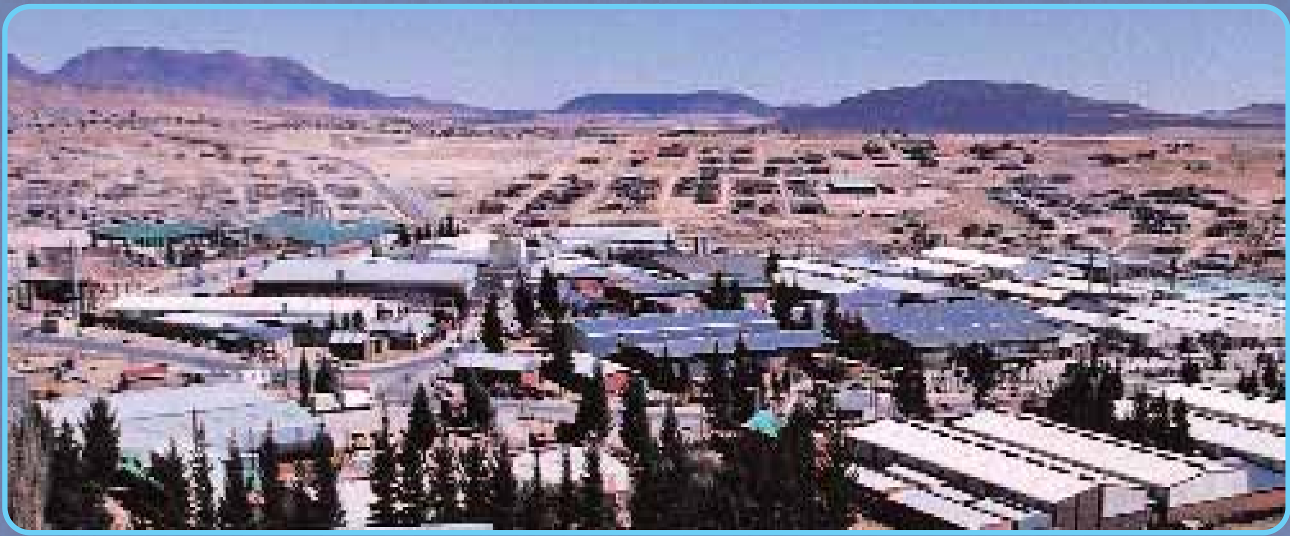
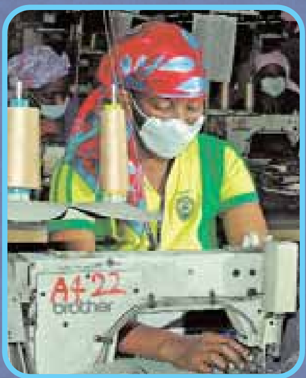
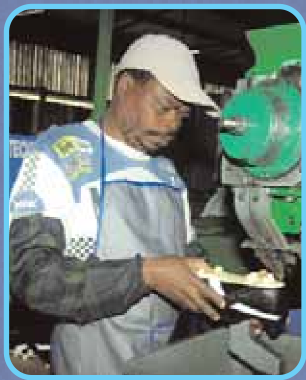


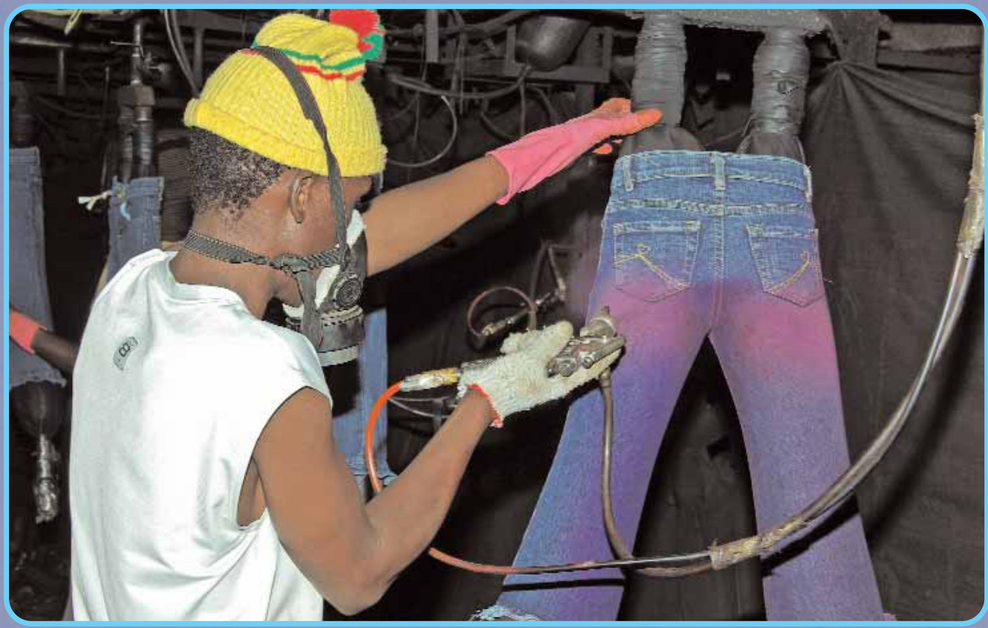




Lesotho National Development Corporation
Annual Report 2005/2006

With compliments of the Board of Directors, Management and Staff

LNDC
LESOTHO NATIONAL DEVELOPMENT CORPORATION



CONTENTS

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 the LNDC 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 2005/06 the Corporation's authorised share capital was M250 million. Fully paid-up share capital was M128 million, comprising M128 million ordinary shares of M1 each

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 and ICT Division; Internal Audit Division; Human Resources and Administration Division, Legal Division and Public Relations Section. 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 this statutory requirement that the LNDC presents this edition of its Annual Report for the financial year April 1, 2005 to March 31, 2006. 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 Board has established the following direction for the Corporation:

Vision:

By year 2020, the Lesotho National Development Corporation (LNDC) shall be one of the leading development organisations in the Southern African Development Community (SADC) region and shall have helped Lesotho to achieve eighty percent employment as well as graduate from least developed country (LDC) status.

Mission:

To contribute to the generation of wealth and employment opportunities for the nation by promoting sustainable investment and the establishment of commercially viable medium to large scale enterprises.

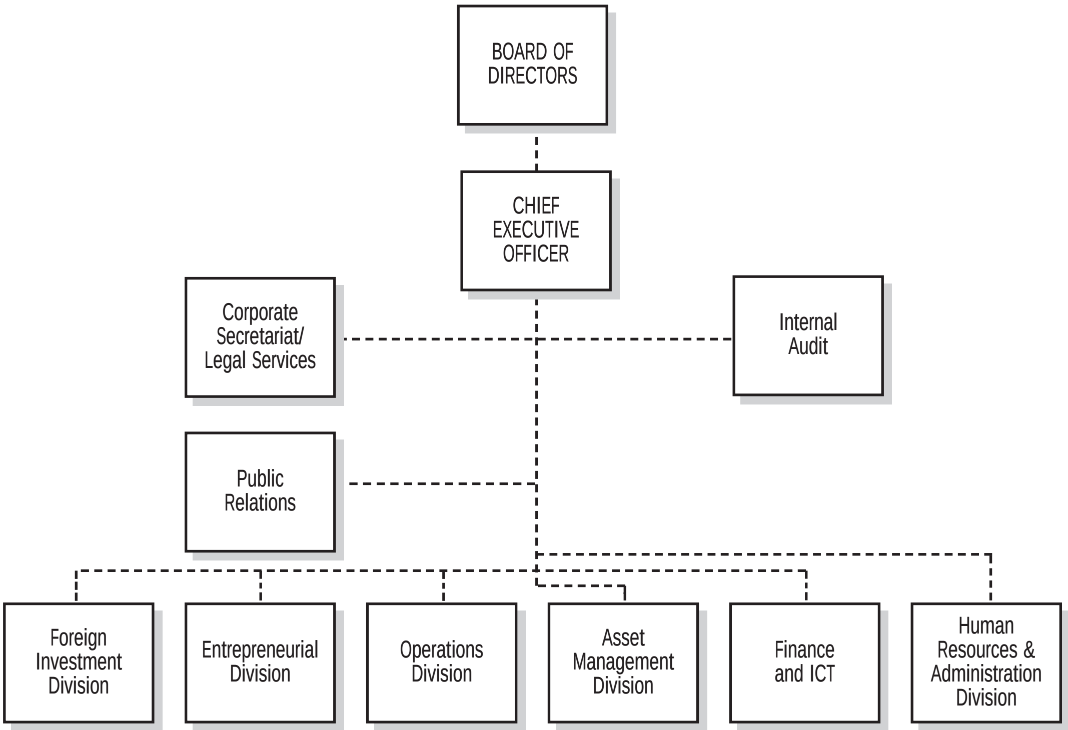
Philosophy:

The Corporation is committed to the following:

- Provision of excellent service
- Increase of shareholders value
- Fiscal integrity: effectiveness and accountability
- Promotion of good labour relations and a healthy working environment within LNDC leasehold portfolio
- Protection of the environment and sustainable use of the natural resources
- Participation in community-building activities including HIV/AIDS programmes
- Creation of opportunities for staff to develop their full potential

LNDC ORGANISATIONAL STRUCTURE

2005/2006



LNDC BOARD OF DIRECTORS

end of financial year 2005/2006

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

Mr Peete Molapo
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 2005/2006

EXECUTIVE TEAM

Mr Peete Molapo
Chief Executive Officer

Mr Motebang Mokoaleli
Head, Foreign Investment Division

Mr Mokhethi Shelile
Head, Entrepreneurial 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 and Administration Division

Mr Clark Taelo Poopa
Head, Legal Division

Ms Teboho Lekalakala
Head, Internal Audit

MANAGEMENT TEAM

Mrs Lesa Makhoalibe
Public Relations Manager

Mrs Tšepang Sekhesa
Manager, Investment Promotion

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 2006.

2005/06 has been one of the most eventful years in the history of LNDC. It was a year that marked the expiry of the Multi-fibre Agreement (MFA) which brought with it a fundamental global change in the textiles and garments trade.

During the review year the Corporation attracted 4 foreign direct investment (FDI) projects with a total investment value of M 7 million. 849 new jobs were created by these new projects compared with 4 projects attracted in 2004/05 which created 237 jobs.

Total jobs generated by the LNDC leasehold portfolio were 44 318 in March, 2006 compared to 48 818 jobs in March 2005. A fall in employment was due to closure of 5 factories during the year. The garment sector contributed for 91% of the jobs created by the LNDC portfolio as at March, 2006. The garment industry was the single largest contributor to the manufacturing sector. Under African Growth and Opportunity Act (AGOA) Lesotho was able to export US$ 387 million worth of garments to the United States of America by end of 2005 calendar year compared with US$ 391 million the previous year.

In recognition of the vital role played by the private sector LNDC contributed to the development of the Small and Medium Enterprise White Paper. The paper will provide a legal and regulatory framework for active participation of the private sector in economic development. In an effort to address lack of access to finance by the private sector, LNDC developed an Enterprise Development Framework (EDF) concept paper that was presented to the LNDC Board in March, 2006 for approval. The primary objective of this framework was to identify financial instruments through which LNDC could effectively contribute to the growth and development of the Small and Medium Enterprises (SMEs) in Lesotho. With the concept paper completed the Corporation is now in the process of developing operations and procedures manual for the establishment of a partial credit guarantee facility.

The MFA expiry exposed Lesotho's vulnerability of reliance on one product and one market. This year LNDC set out to diversifying markets and products by promoting and attracting diversified investments. The focus was on investment that would vertically integrate the garment sector in order to entrench it and enhance its competitiveness. It was also about attracting investment into other lines of production outside the clothing and textile sector. The Corporation and ComMark an independent trust aimed at helping the poor to access markets, commissioned a comprehensive study that will address LNDC's diversification needs. Stakeholders were still making inputs to the report by the fall of the year. The Corporation also undertook targeted investment promotion missions to electronic and electrical assembly projects, shoe manufacturing and others to diversify away from the garment industry. At the end of the year LNDC had successfully attracted four projects servicing South Africa and Lesotho markets thus demonstrating that efforts to diversification were successful.

The US based consulting firms commissioned by LNDC effectively negotiated with the United States (US) government to mitigate the negative impact of the liberalisation of textiles and clothing industry on smaller producer countries like Lesotho. They also reinforced efforts to lobby US buyers to continue sourcing from Lesotho as well as undertake image building campaigns on behalf of Lesotho. One of the firms managed to broker a partnership deal between an American Investor and local investors to produce sandstone and aloe vera products and is currently negotiating partnership deals for local investors in shoe production and water bottling. The Corporation also signed a cooperation agreement with Industrial Development Corporation (IDC) where the two parties have pledged to cooperate on matters of mutual benefit.

STATEMENT BY THE CHAIRMAN

(continued)

The Corporate Blueprint was finalised and is awaiting Board's approval. It is expected that the successful implementation of the blueprint will capacitate the Corporation in fulfilling its mandate as well as enhance focus on its key development objectives.

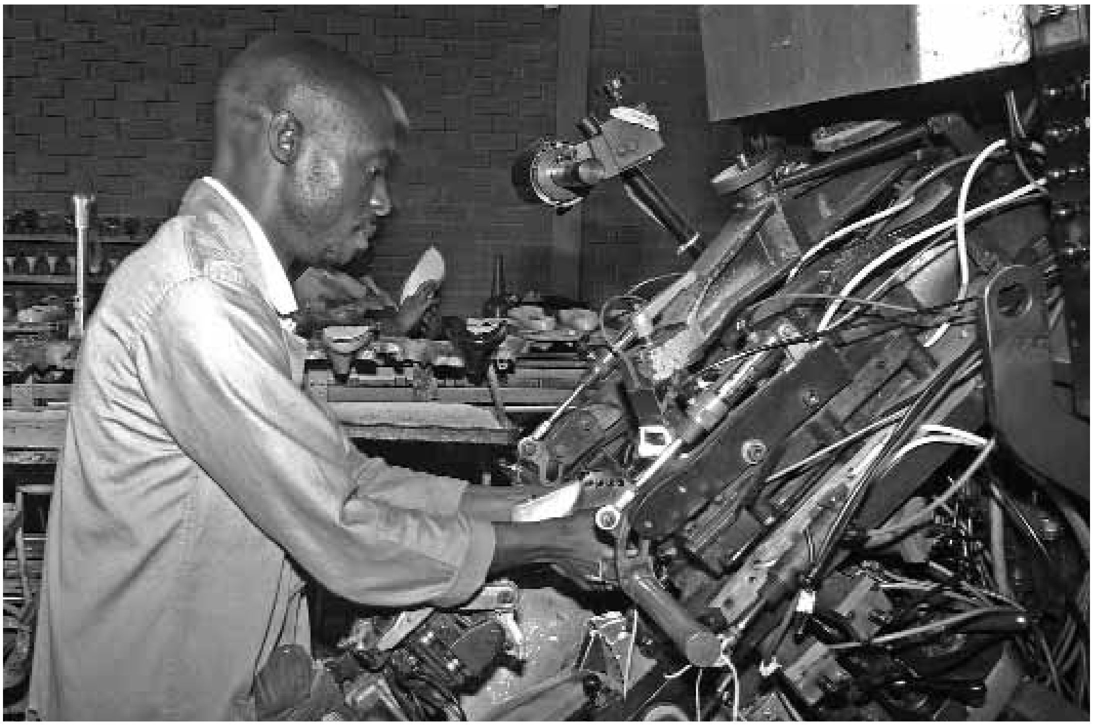
An internal workshop on the Performance Management System (PMS) was held with the purpose of clarifying opaque issues in relation to a definition of Key Performance Areas (KPAs) as well as the operationalisation of the bonus model. The PMS system will also be rolled out in the next year. The Corporation however implemented the PMS system on a trial basis commencing September, 2005.

The Corporation registered a net profit growth of 5.5% compared with the same period the previous year. The shareholders' equity also grew by 10.4% for the same period.

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 to make all this progress. Special thanks go to the Government of Lesotho especially the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) who have closely worked with us during these trying times.

D M Rantekoa

Chairman



CHIEF EXECUTIVE'S REPORT

General

The year under review was preceded by the expiry of the Multi-Fibre Agreement (MFA) on 31st December, 2004. The expiry of the MFA opened up Lesotho made garment exports to competition from more efficient producers in China and India who can now export garment products to the US and the EU without any quotas. The expiry of the MFA also came against the background of the delayed extension of 3rd country fabric sourcing provision. The delayed extension caused panic, apprehension and uncertainty to the garment industry during the reporting period.

The above two major developments led to a significant drop in orders for the local industry that in turn triggered factory closures, retrenchments and temporary lay offs resulting from scaled back operations by firms that were able to weather the storm. A total 5 factories closed down during the reporting financial year and 1548 jobs were lost.

LNDC responded in a number of ways to counter these negative developments. The Corporation undertook quarterly studies to assess business sentiment in order to proactively identify measures that could be taken to ameliorate the deleterious effects of the expiry of the MFA as well as to advise Government. More specifically, the studies were aimed to establish the level of firms' financial distress associated with reduced orders as well as to identify appropriate interventions to curb further closures of the garments operations. The findings of the studies signalled a need for a permanent surveillance of the performance of the industry. The immediate policy intervention that LNDC undertook was that of freezing rentals for three consecutive years. On some special cases rental reductions were applied on a case by case depending on the extent of the financial distress.

In anticipation of a difficult 2005/06, LNDC had in its corporate plan for that year decided to proactively take the following actions:

- Undertake immediate missions to the US in order to enhance relationships with major buyers. The objective was to ensure that despite the changes associated with the expiry of the MFA Lesotho should continue to be on the radar screen of major US buyers and US policy makers.
- Aggressively embark on investment promotion campaigns to attract investors that can develop relevant supply chains to foster integration of the textile and garments industry.
- Aggressively embark on investment promotion campaigns to attract investors interested in production of high value garment products to promote diversification within the garment industry, and
- Investors interested in other areas in order to promote diversification outside the garment industry.

Under the leadership of the Minister of Trade and Industry, Cooperatives and Marketing (MTICM), trade promotion mission were undertaken to the US to meet with major buyers and US administrators in Washington. Investment promotion missions were also undertaken by LNDC to the Republic of South Africa (SA) to sell Lesotho as an investment destination of choice regionally. LNDC also went as far a field as China, Singapore, Malaysia and Taiwan to spur interest in a knit mill, high value garments, electronics and electric products.

A. OPERATIONAL ACTIVITIES

Investment Promotion

LNDC promotes investment by attracting foreign investors to open manufacturing operations in Lesotho. This year investment promotion efforts were geared towards projects that would lead to the diversification and integration of the garment industry. To achieve the integration objective LNDC promoted the establishment of a knit fabric mill, waste water management, dyeing and washing activities.

The diversification objective was achieved, at the end of the reporting period although more still needs to be done. The Corporation attracted 4 new projects with the investment value of M 7 million. These projects were in the garment and footwear sectors and all of them serve the South African and the local market. The projects created 849 new jobs compared to 4 projects that started in 2004/2005 and generated 237 jobs. At the end of the reporting year all LNDC assisted companies had generated 44 318 jobs which was lower than 48 818 in the previous year. The fall in employment was due to closure of 5 companies during the reporting period. The closure of 5 companies during the year adversely affected the export performance of the garment industry. Lesotho exported US$387 million worth of garment exports by end of 2005 calendar year compared with US$ 391 million the previous year.

LNDC investment promotion missions in China, Singapore, Taiwan, Malaysia, South Africa and Mauritius let to 23 investors from various sectors visiting Lesotho to explore business opportunities.

Integration of the garment sector proved to be a challenge and still remains a critical area being pursued. Investors that have interest in establishing a knit mill were fazed by lack of support services like waste water and solid waste management facilities. To tackle this problem LNDC developed a business case document outlining investment opportunities in waste management and sold it to private sector operators in Lesotho and South Africa. However no concrete commitments to establish a mill have been made yet. It is hoped that the positive advances on Metolong water supply project and solid waste management at Tsoeneng will go a long way in assisting LNDC on its efforts to attract investors in this area.

During the review year the total FDI pipeline constituted 28 projects compared with 15 the previous year. 39% of these projects were definite commitments, mostly originating from South Africa and planning to manufacture high value garments, electrical equipment and footwear for the South African market. The projected investment value of the pipeline is estimated at M139.95 million compared to M154 million the previous year. Garments sector still accounts for the major share of the pipeline at 43%. The implementation of definite commitments has a potential to create 6 300 jobs. This is against 6 650 the previous year. Lack of infrastructure in the form of serviced sites and factory shells still remains a primary challenge.

During the year LNDC conducted an evaluation on Lesotho's incentives package against its SACU counterparts and found Lesotho was not competitive in a number of areas like bilateral investment treaties with 3rd parties, taxation and financial incentives. Lesotho's uncompetitive incentive regime was also identified as a challenge by the Inter-Ministerial Task Team (IMTT). It was during the reporting period that the IMTT re-introduced the Duty Credit Certificate Scheme (DCCS) as an additional measure to enhance the garment industry competitiveness. Issues of investment climate enhancement were also of interest to the IMTT as it was during this period that the IMTT set in motion the development of a one-stop-shop facility that would speed up investment facilitation services to investors. Also, initial steps to develop a competition policy were started during the reporting period.

Market access conditions continued to be of critical importance to LNDC and as result LNDC participated in a number of meetings and workshops on the subject. Of specific importance, LNDC participated in SADC Finance and Investment protocol meetings. These meetings were designed to assist SADC member states to develop a common approach in attracting investment to the region through the development of policies that would foster regional cooperation and integration based on specific countries productive capacity and comparative advantage.

Entrepreneurial

LNDC promotes Basotho-owned enterprises through, facilitation of joint-ventures; linkages; finance; and promotion of entrepreneurship so that they can contribute more towards Lesotho's economic growth. During the current reporting period as well as the previous reporting period major constraints that inhibit growth of the local private sector were identified as:

- Limited access to financial resources and credit.
- Insufficient capacity to develop business strategies and growth plans
- Lack of basic business management skills.
- Insufficient marketing and export/import skills.

The Division's strategic plan for the year 2005/2006 was developed with the aim to redress some of the above mentioned constraints.

The Corporation received 11 applications from the private sector seeking financial assistance during the year. As the Corporation does not currently provide loan financing to the private sector, some development finance institutions that LNDC usually cooperates with were approached. Specifically, the LNDC approached NORSAD Agency a joint Nordic/Southern African Development Community (SADC) initiative which finances small to medium enterprises (SMEs), and submitted 4 projects for financing. Unfortunately the projects did not succeed to secure funding due to lack of equity.

Cognisant of the serious problem of access to credit by the private sector, especially SMEs, the LNDC is in the process of developing a framework for introducing new financial instruments through which it can make a meaningful contribution towards supporting private sector development in Lesotho.

The division hosted 95 enquiries during the reporting period compared with 45 in the previous period. The increase was due to the marketing campaigns that were undertaken by the division especially to promote the European SADC Investment Promotion Programme (ESIPP) Light Engineering business to business meetings.

During the reporting period indigenous projects in the pipeline were 14 compared with 10 in the previous period. The pipeline is worth M90.7 million and can generate more than 1 400 jobs for unskilled workers and about 400 skilled workers. About 23% of the pipeline projects are in agro industry while, 5% are in tourism infrastructure and other sectors; light construction, light engineering, information technology, services and resource based projects accounted for the balance. It has to be mentioned that 90% of this pipeline projects require financial assistance and therefore without this form of intervention it has not been possible to convert most of them into operational projects.

The Division attended Decorex Cape 2005 exhibition. The exhibition is an annual event held in Cape Town bringing fresh collection of the very best in décor and interior design. The showcase attracted designers, manufacturers, suppliers and international agents from various sectors.

The objectives of the promotion were to:

- identify new/different products and services for diversification
- identify business linkage opportunities
- establish contacts with producers and distributors of new/different products and services

237 exhibitors' contacts were made of which 141 were in manufacturing, 83 were distributors and 6 assemblers specialising in domestic water distribution products. There were also décor and interior design and catering services providers.

During the reporting period the division actively marketed the mothballed Basotho Chicks hatchery to strategic partners. It managed to generate two site visits; one from a South African company and the other from a joint venture between a Lesotho promoter and a South African. The joint venture company expressed its interest to re-open the facility.

ESIPP in collaboration with the Centre for Development of Enterprise (CDE) and the European Investment Bank (EIB) organised a Light Engineering Investment Promotion and Business Cooperation Meeting in Mauritius. LNDC facilitated the participation of 6 projects from Lesotho at the event. 3 of these companies were represented by their owners.

The review year also saw the LNDC Centre parking lot being put under the management of a local company in order to improve security on a cost recovery basis. The division played an instrumental role in ensuring that the project was completed successfully.

A service agreement between the LNDC and the two US based consultancies the Whittaker Group and GT Ventures LLC continued into the current reporting period. The consultancies were recruited by the Corporation to provide trade and investment promotion on behalf of the LNDC in the US.

The Whittaker Group arranged two weeks trade promotion mission in the US. The mission that was led by the Minister of Trade and Industry, Cooperatives and Marketing met with major buyers of Lesotho's apparel such as GAP, Target, Levi Straus and others. The mission registered a success with companies such as Levi Straus pledging to increase their orders from Lesotho. However most of the buyers indicated that Lesotho has to work on reducing lead times and producing high value adds products.

A prospective cosmetic production company was established in partnership with a local investor through GT Ventures LLC. The US partner pledged an injection of US$300,000 into the project. During the first year the project costs, annual turnover and employment creation were estimated at M1.37 million, M2.5 million and 13 employees, respectively.

G.T. Ventures LLC also brought to Lesotho another potential investor. The investor was introduced to a local Water Bottling Company among others and he expressed interest to buy more than 60% of the company.

Operations

The Corporation monitored 65 companies compared to 66 in the previous year. The majority of the companies were in textiles and clothing 46,4 were in footwear, 2 in electrical appliances, 1 in embroidery, 1 in printing and packaging and 2 in other categories. There were also 9 commercial operations that form LNDC equity portfolio.

LNDC-assisted companies employed 44 318 people. 92% of the jobs were in the clothing and textiles sector. Footwear employed 4% while electrical appliances and electronics, hospitality, and construction sectors employed 1%. Employment by other sectors such as packaging ranged from 0.25% and 0.01%.

The number of new jobs created this year was 849 compared to 237 jobs last year. 2004/05 has been one of the toughest periods in LDC's history because of the expiry of MFA. The modest increase in jobs created in 2005/06 was a result of expansion by one firm and establishment of 4 new ones. The new companies were Huang Qiu, Corporate Clothing, Kopano Textiles and Chelsea West and the one that expanded its operations was Ace Apparel. The jobs created by the new companies are expected to increase to over 5 000 when the companies have attained full operational capacity. LNDC assisted these 4 new companies to registered against 3 that it helped register last year. It also assisted some companies under LNDC portfolio with 7 manufacturing licences applications.

Unlike in the previous year when industrialists experienced heightened uncertainty because of the MFA expiry, during the review period the industry sentiment changed for the better. There was a resurgence of orders that resulted in increased demand for additional factory space. In addition, a lot of new potential investors responded positively to investment promotion initiatives of the Corporation.

Five companies, namely, Baneng Lesotho, Basotho Chick Farm, Print Z, Hong Kong International and Alley Cat closed during the reporting year. Closures of these companies led to 1 548 job losses. The reasons for closure were mainly financial and were a result of the shock the companies went through due to the expiry of MFA. During the current year these companies continued retrenching workers until they closed.

The Operations Division facilitated and provided advisory services on compliance and adherence to industrial relations policies within the LNDC as well as within the portfolio companies.

A number of meetings aimed at raising awareness on the HIV/AIDS pandemic were held during the period for workers and their managers in the clothing and garments industry. These awareness campaigns were organised by a steering committee consisting of LNDC, Ministry of Trade and Industry, Cooperatives and Marketing, labour unions, employers associations and others.

LNDC also facilitated a number of meetings aimed at assisting companies to resolve different trade disputes affecting them during the year. The number of disputes handled this year decreased by around 5% compared with the previous year. Very few companies were affected by illegal strikes during the year.

The following companies were assisted in conducting disciplinary hearings during the year - Precious Garments, Loti Brick, Cashbuild and Kiota. In the previous year, only two companies Loti Brick and Cashbuild were assisted. Despite a slight increase in disciplinary hearing, there was big improvement as many companies have now employed experienced industrial relations practitioners who can handle disciplinary matters properly.

Minimum wages were inflation adjusted and gazetted and the Hon. Minister of Employment and Labour was accordingly advised on the changes. In the previous year, the two biggest employers and workers organisations in the manufacturing industry, Lesotho Textile Exporters Association (LTEA) and Factory Workers Union (FAWU) reached an agreement that wages should be frozen because of poor financial performance by the industry. They also agreed on two weeks paid maternity leave and establishment of a funeral scheme for the workers, and their families.

The number of permit applications that the Corporation facilitated fell by more that 50%.Visa applications processed were 1 592 against 3 229 in 2004/05 and there were only 6 border pass permits processed as opposed to 12 in 2004/05. This is because 3 of the companies that started operations during the year were from South Africa and they did not need visas to enter and exit Lesotho. Also most of the Investors from South Africa stay in border towns and do not need residence permits. 26 work permits were handled contrary to 394 in 2004/05 because two of the companies opened were small and their work permit quotas were small.

Equity Portfolio

The LNDC equity portfolio comprised of 9 companies in 2005/06 same as last year. The portfolio was in the following sectors: agro-processing, building and construction, manufacturing, and wholesale and retail. The LNDC participated in a total of 20 board meetings of the respective portfolio companies as part of monitoring their performance.

Aggregate performance of the equity portfolio in terms of turnover and profits was M622.0 million and M86.7 million respectively compared with 2004/05 aggregate turnover and profits of M481.04 million and M60.625 million respectively. In terms of sectoral performance, agro sector continued to perform much better than the other sectors as it was the case in 2004/05 Lesotho Brewing Company contributed to the high performance in the agro sector. On the other hand Basotho Fruit and Vegetable Canners (pty) Ltd (BFVC) which falls within the agro sector registered a cumulative loss of M5.59 million as a result of insufficient supply of material, especially asparagus.

LNDC's 50/50 joint venture with the Shoprite Checkers Group opened a new-look Shoprite in Maseru on the 1st June, 2005 replacing OK Bazaars.

Total employment generated by the LNDC equity portfolio was 1 250. It had increased by 139 from 1 111 in 2004/05. There were no closures in the equity portfolio of companies during the year.

A Malaysian company, TLWAY Texco, signed a Memorandum of Understanding with LNDC on the 16th July, 2005 to set up a fully integrated outfit which will manufacture garments from locally sourced raw material. The company fielded a cotton specialist to Lesotho to set up a pilot project and grow cotton. The Malaysian Prime Minister, the Honourable Abdullah Ahmad Badawi, visited the pilot project when he was in Lesotho attending the Smart Partnership International Dialogue in November, 2005.

Asset Management

The LNDC property portfolio is made up of industrial, commercial and residential properties. The property consists of 137 industrial buildings, 9 commercial outlets, 3 shopping centres, 6 office blocks and 8 residential units and the portfolio increased by one industrial unit from the previous year of 162 units to a total portfolio of 163 units.

Through its Asset Management Division the Corporation diversifies and grows its property portfolio. In the past years LNDC used to operate an advance factory programme which allowed investors to move in quickly and this was a major attraction which considerably reduced the lead-time. Recently, the Corporation had to change that and build new factory shells on demand basis due to financial constraints and also to try to avoid the risk of having a lot of unoccupied shells should the market take a dip as it happened when the MFA expired. The property portfolio has increased by one unit from previous year's 162 units to 163 in the reporting period. The increase was due to the construction of 5 200 m² factory shell constructed for TW Garments at Nyenye industrial estates.

LNDC has leased land on a long term contract to two major denim manufacturing companies of China Garment Manufactures (CGM) Group and Nien Hsing Group at Thetsane industrial estate. The investors have constructed pre-treatment plants whereby highly coloured effluent is processed to recover over 60% of the water as a high quality, colour free product that can be reused in the mainstream manufacturing processes. The construction and installation cost of the said plants were born by the investors as per the principle of the polluter pays and the construction of these plants will go a long way in mitigating the environmental impacts of the textile and garments industries on the surrounding streams and rivers at Thetsane Industrial Estate

Two major projects for construction of a factory shell for Kiota Electronics and a warehouse were planned to be carried out during the reporting period but had to be abandoned at the request of investors.

Four main projects that were implemented and completed during the review year were:

- 1 x 5 200 m² factory shell constructed for TW Garments at Nyenye
- 2 x 1 000m ² factory shells reconstructed after being destroyed by fire at Thetsane
- Thetsane Landscaping Project
- Refurbishment of House 90 Maseru West

A. CORPORATE SERVICES

LNDC property portfolio maintenance is managed by the real estate manager (JHI Real Estate). The maintenance budget for 2005/2006 was M4 253 000.00 and the actual expenditure was M3 481 562.00. A savings of M771 438.00 was realised from the budget through the competitive procurement of contractors.

The maintenance work required by the portfolio is generally broken down into preventive maintenance, repairs and renovations.

The major maintenance activities carried out during the reporting period were:

- Rehabilitation of Thetsane Industrial Estate roads and
- Rehabilitation of Thetsane Storm water drains

The Financial Year 2005/2006 witnessed a progressive decline in the industrial occupancy rate from the 98.2% last year to 79.3%. It was well below the planning target rate of 95%. The decline in occupancy rate was a result of the closing down of factories after the expiry of the MFA as shown above. On the retail, commercial and residential portfolios, the demand conditions were favourable and the sectors enjoyed full occupancy throughout the year.

There were no additional properties or land acquired during the reporting period. Neither were there any disposals.

Human Resources and Administration

During the year under review LNDC restated its strategic direction and the Division contributed substantially in the exercise. This exercise warranted a critical self-evaluation whose main objective was to identify strengths and weaknesses at divisional level, threats and opportunities as well as resource needs in order to optimise the Corporation's delivery.

The objective of the whole exercise was mainly to refocus and fine-tune the LNDC organisational structure in accordance with its mandate and to its 2004/2005-2006/2007 Strategic Plan. This exercise resulted in the review of divisional functions and structures of the Corporation.

The Division also facilitated the introduction of the Performance Management System (PMS). The primary aim for the introduction of the PMS was to enhance staff performance through a performance based reward system, productivity and overall efficiency in service delivery. During the year under review the Corporation introduced the PMS on trial basis.

The Corporation also embarked on the review of its salary structure. The review was meant to make the Corporation's salaries to be competitive with the labour market. The Corporation also wanted to adopt a salary structure which was based on a scientific job evaluation as the one it used was a home grown structure which did not conform to any scientific job evaluation. The Corporation then adopted Paterson Job Evaluation and Grading.

During the review year the Corporation reviewed some of its staff benefits and the Division coordinated the process. The review entailed changing the administration and structure of the medical aid scheme and the staff loan scheme.

Since 1997 the Corporation had an in-house medical aid scheme to assist staff members towards payment of medical expenses. The scheme was voluntary and the Corporation contributed a monthly subscription of M65.00 towards each member while staff member's monthly contribution ranged from M65.00 to M200.00. This year the Corporation enlisted the services of a medical aid provider that can provide adequate medical cover for its staff members and their families. To this effect the Corporation set aside M1 000 000.00. The Corporation has since joined a conventional medical aid scheme. The Corporation contributes 60% of the monthly contributions while staff members contribute 40%. The scheme has an HIV/AIDS Programme to which the Corporation contributes 100% of the monthly contributions.

As in the case of medical aid scheme, LNDC had a loan scheme which it administered internally. This scheme had been in place for over twenty years. During the year it outsourced the loan administration to the local banks. The main aim of outsourcing the administration of staff loans to the local banks was to improve the efficiency of the scheme and to ensure that staff members have access to adequate funds. The outsourced loan scheme is of three types namely, car loans, housing loans and short terms loans. The Corporation pays interest subsidy on each type of loan.

The Corporation continued to capacitate its staff through training. During the year under review, the Corporation facilitated participation of 18 employees in short courses and workshops as shown in the table below:

Training Programme	Participants
1. Video Assisted Training on Leadership and Supervision	All Heads of Divisions plus Senior Accountant, IT Manager and Senior Project Manager
2. Drafting Contracts and Negotiation Seminar	Legal Officer
3. Workshop for African Investment Promotion Agencies	Investment Promotion Manager and Investment Promotion Officer
4. African Countries Seminar for Construction of Economic Development Zones	Entrepreneurial Development Officer
5. Programme on Investment Appraisal and Risk Analysis	Head, Operations and Senior Project Management
6. Seminar on Treasury and Risk Management	Senior Accountant
7. Public Finance Management: Focus on Small, Micro and Medium Enterprises and Infrastructure Development	Entrepreneurial Development Officer
8. How to Detect and Prevent Occupational Fraud	Chief Internal Auditor
9. Practical Wireless Ethernet and Transmission Control Protocol/Internet Protocol (TCP/IP) Network	Systems Administrator

Public Relations

Damage control was the order of the day for LNDC this year. The expiry of the MFA in December 2004 and the strengthening Rand/Loti against the US dollar presented a real threat to the garment industry. Negative stories about the demise of the manufacturing industry in Lesotho made headlines locally, regionally and internationally. Aggressive interventions through the media and the LNDC quarterly newsletter to allay the fears were undertaken.

LNDC reduced rentals on buildings across the board by 10% for industriakists with effect from the 1st July, 2005. This was in addition to a rental freeze which had been in operation since 2003. The downward review of the rentals necessitated expenditure adjustments by LNDC on its internal operations.

LNDC formed a Utilities Forum with the Lesotho Electricity Corporation (LEC) and Water & Sewerage Authority (WASA) to address the needs of industrialists. LNDC also arranged with the management of Standard Lesotho Bank the briefings to industrialists on financial management issues related to circumvention of the effects of the strengthening the Loti against the US dollar.

LNDC/ComMark Apparel Project

33 employees of Shinning Century successfully com-pleted their training in production management, line management and supervision under LNDC/ComMark Project and were awarded certificates on the 11th April, 2005. As a result of this programme to train Basotho, some companies decided to release some of their expatriate staff and replace them with locally trained Basotho. Also consequent upon this training programme an average increase of 25% in productivity was realised and garment reject rates were reduced by 5%.

LNDC and IDC Sign a Cooperation Agreement

LNDC and the Industrial Development Corporation (IDC) in South Africa signed a collaborative agreement on the 3rd November, 2005. In terms of the agreement, the two organisations would cooperate on matters of mutual interest. Specifically the agreement focused on areas such as corporate risk management, capacity building, technical assistance in economic research and project financing.

Corporate Social Responsibility

LNDC donated M5 000 to an income generating project, Jewels of Hope, which assists orphans and vulnerable children to make jewellery out of beads and support themselves by selling the items. Production generated out of the LNDC donation was equivalent to 650 pieces of necklaces, bracelets and earrings with a retail value of M21 000.00. The project started in October, 2005 with 10 children and two trainers. Overseas markets were being identified for this project.

LNDC Loses its Founder

Dr. Anton Rupert, LNDC founder died on the 18th January, 2006 at his home in Stellenbosch. Dr. Rupert was instrumental in establishing the Corporation in 1967 at the invitation of the then Prime Minister of Lesotho, the Right Honourable Dr. Leabua Jonathan. Dr. Rupert also sponsored a free Medical Shuttle Service to Lesotho which was administered through LNDC. The service provided free medical specialist services to Basotho for over 25 years.

C. FINANCIAL PERFORMANCE

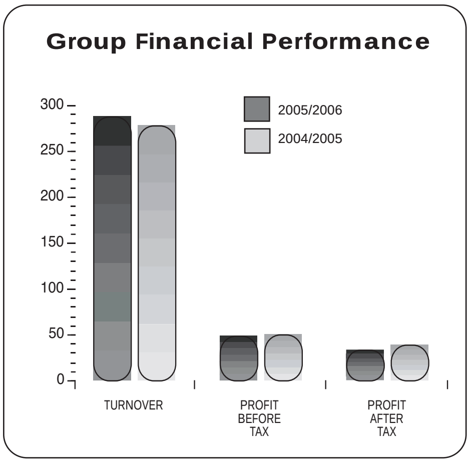
The Group Financial Statements show the Group's financial performance and the Corporation's financial performance for the year ended March 31, 2006.

Operating Income

Group

The Group's turnover (T/O) increased from M277.2 million in 2004/2005 to M287.1 million in 2005/2006. The increase was M9.9 million or 3.6%. Profit before tax (PBT), however, decreased from M50.6 million in 2004/2005 to M49.0 million in 2005/2006. It was a decrease of M1.6 million or 3.3%. The decrease in the PBT was the result of poor control and management of expenses by some companies in the equity portfolio. Profit after tax (PAT) decreased from M39.2 million in 2004/2005 to M33.9 million in 2005/2006. It was a decrease of M5.3 million or 13.6%. One of the major factors that were attributable to the decline in PAT was an increase in taxation from M11.5 million to M15.1 million for the years 2004/05 and 2005/06 respectively. The difference in opinion on tax matters between LNDC and LRA were elaborately discussed during the year and have since been concluded. The decrease in PBT for the year, resulted in a decline of return on capital employed (ROCE) from 8.2% in 2004/2005 to 7.9% in 2005/2006. As a result of the decrease in PAT, earnings per share (EPS) decreased from 30 lisente to 26 lisente.

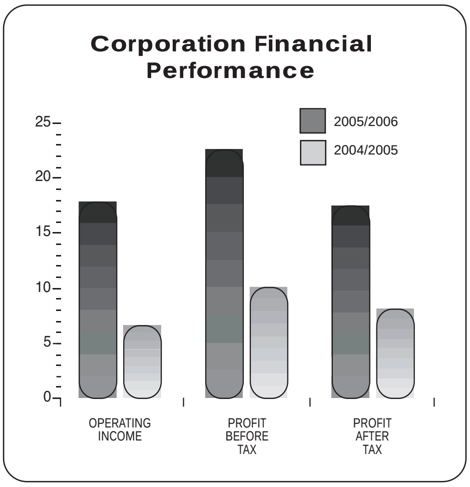
Figure 1 below summaries the LNDC Group's performance for the year 2005/06.



Corporation

The Corporation's operating income (O/I) for the year was M17.9 million when compared with M6.6 million in 2004/2005. There was an increase of M11.3 million or 169.4%. The increase was primarily attributable to an increase in income from subsidiary companies, and a decrease in depreciation expense. Consequently reported PBT for the year was M22.6 million while it was M10.1 million in 2004/2005. It was an increase of M12.5 million or 123.2%. Reported PAT for the year was M17.5 million while it was M8.1 million in 2004/2005. There was an increase of M9.4 million or 116%. ROCE increased from 2.2% to 4.7% while EPS increased from 6 lisente to 14 lisente between 2004/05 and 2005/06.

Figure 2 below depicts the above highlighted Corporation's performance for the year 2005/06 and status at the year-end.

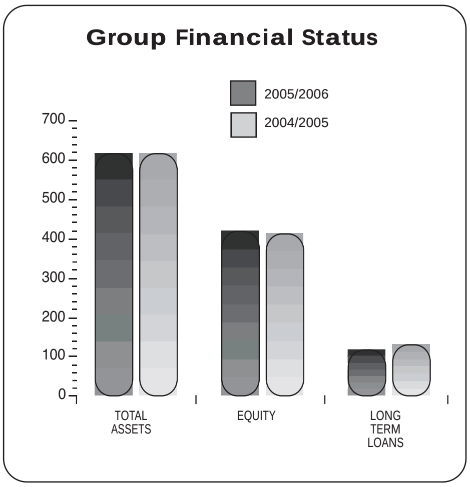


TOTAL ASSETS, EQUITY AND LONG TERM LOANS

Group

The Group's total assets grew by M1.7 million or 0.27% from M616.0 million in 2004/2005 to M617.7 million in 2005/2006. The shareholders' equity also increased by M3.6 million or 0.87% from M413.9 million in 2004/2005 to M417.5 million in 2005/2006. The increase was mainly attributable to the profit generated during the year that resulted in an increase of M9.8 million in retained income. The long term loans (LTL) decreased by M13.2 million or 10.1% from M129.9 million in 2004/2005 to M116.7 million in 2005/2006. The decrease was attributable to repayments made during the year.

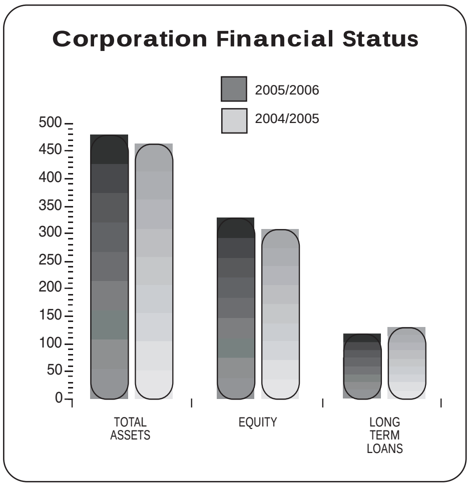
Figure 3 below shows the status in a pictorial form.

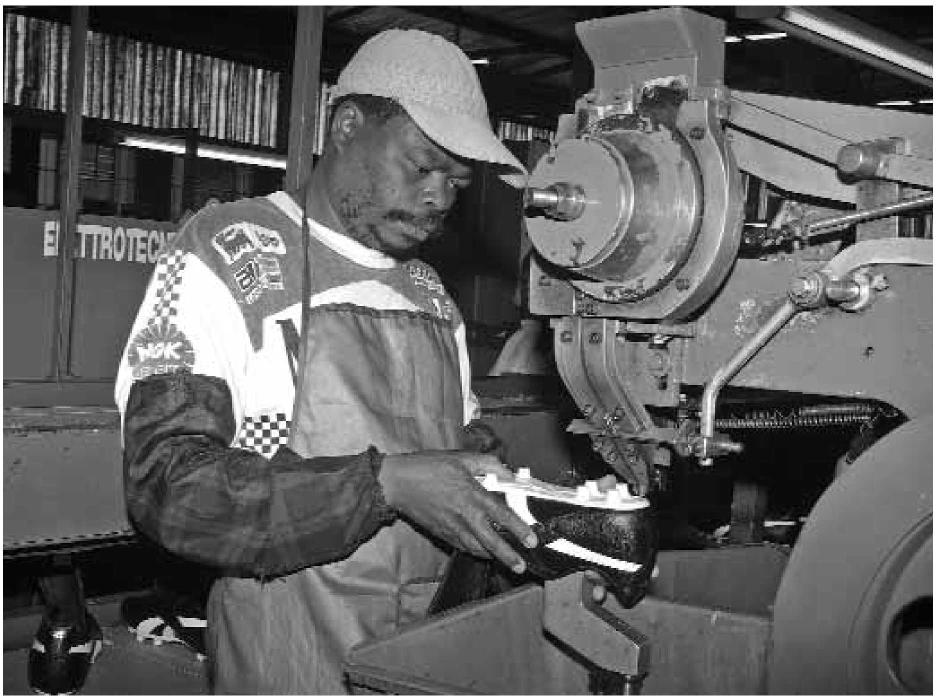


Corporation

The Corporation generated a profit after tax of M17.5 million during the year 2005/2006 which contributed to the overall growth of M15.0 Million or 3.2% (i.e. from M462.5 million in 2004/2005 to M477.5 million in 2005/2006) in the Corporation's total assets. The shareholders' equity also increased by M19.9 million or 6.5%. Long term loans fell by M13.2 million.

A graphical presentation of The Corporations' status is hereunder shown in Figure 4:





Ratios analysis

Table 1	Group % Increase/ (decrease)	Group Increase/ decrease M'000	Group 31 Mar 2006 M'000	Group 31 Mar 2005 M'000	Corporation % Increase/ (decrease)	Corporation Increase/ decrease M'000	Corporation 31 Mar 2006 M'000	Corporation 31 Mar 2005 M'000
Turnover/ operating income	3.58	9 919	287 101	277 182	169.39	11 249	17 890	6 641
Profit before tax	(3.29)	(1 667)	48 970	50 637	123.18	12 458	22 572	10 114
Profit after tax	(13.55)	(5 310)	33 879	39 189	117.17	9 457	17 528	8 071
Total assets	0.27	1 671	617 684	616 013	3.25	15 024	477 527	462 503
Equity	0.87	3 585	417 521	413 936	6.47	19 933	327 795	307 862
Long-term liabilities	(10.15)	(13 175)	116 677	129 852	(10.15)	(13 175)	116 677	129 852
Return on capital employed	(3.55)	(0.29)	7.93	8.22	116.15	2.54	4.7	2.2
Earnings per share (Lisente)	(13.55)	(4.15)	26.47	30.62	117.17	7.39	123.69	6.31

Conclusion

The Group's financial position as at 31 March 2006 grew by M1.7 million or 2.8% in total assets compared with M16.8 million in 2004/05. The reason for the fall back was the not so good performance of some companies in the equity portfolio. However, the Corporation separately performed well with its assets growing by M15 million.

FINANCIAL STATEMENTS

for the year ended 31 March 2006

Contents

Directors' Approval

The financial statements which appear on pages 29 to 44 were approved by the board of directors on 15 August 2007 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 2006

We have audited the financial statements and group financial statements for the year ended 31 March 2006 set out on pages 29 to 44. 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 2006 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

In our opinion the financial statements fairly present the financial position of the Corporation and Group at 31 March 2006 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 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 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:

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 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 Exchange Differences Corporation

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.

2.9 Exchange Differences Corporation

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.

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 2006

		Corporation		Group	
	Notes	**2006 M'000**	2005 M'000	**2006 M'000**	2005 M'000
Turnover	**13**	**–**	–	**287 101**	277 182
Operating income	**14**	**17 890**	6 641	**42 781**	45 456
Income from associates		**4 682**	3 473	**6 189**	5 181
Income before tax		**22 572**	10 114	**48 970**	50 637
Taxation	**15**	**(5 044)**	(2 043)	**(15 091)**	(11 448)
Income after taxation		**17 528**	8 071	**33 879**	39 189
Minority interests		**–**	–	**(25 817)**	(23 802)
Income from ordinary activities		**17 528**	8 071	**8 062**	15 387
Prior year adjustment	**17**	**1 751**	2 006	**1 751**	2 006
At beginning of year		**13 015**	2 938	**77 035**	59 642
At end of year		**32 294**	13 015	**86 848**	77 035

BALANCE SHEET

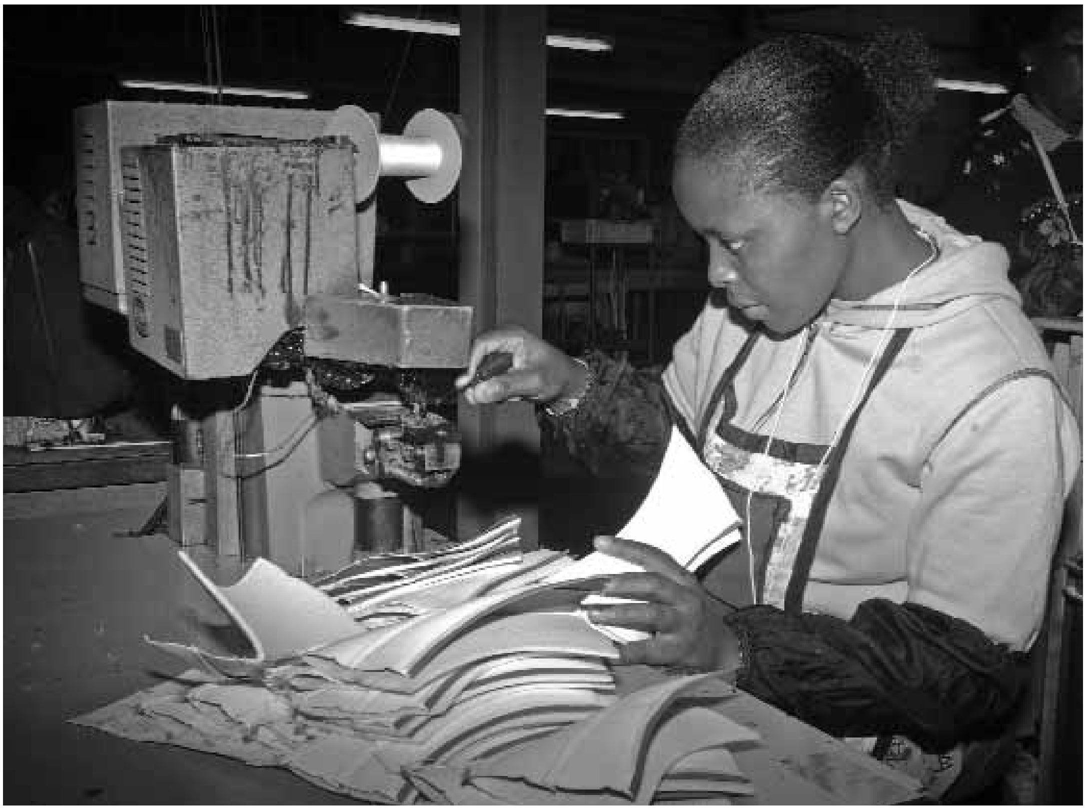
at 31 March 2006

	Notes	Corporation 2006 M'000	Corporation 2005 M'000	Group 2006 M'000	Group 2005 M'000
ASSETS					
Non-current assets					
Property, plant and equipment	**4**	**403 257**	403 700	**482 905**	481 633
Intangible asset		**–**	–	**257**	317
Investment in subsidiaries	**5**	**11 725**	11 725	**–**	–
Investment in associates	**6**	**564**	236	**28 390**	26 883
Other investments	**7**	**17 012**	15 147	**17 012**	21 564
Loan debtors	**8**	**641**	5 380	**641**	5 380
		433 199	436 188	**529 205**	535 777
Current assets					
Inventories	**9**	**–**	–	**29 652**	25 241
Accounts receivable	**10**	**18 114**	8 187	**30 023**	22 215
Short term investments		**25 264**	15 364	**25 264**	15 364
Bank balances and cash		**950**	2 764	**3 540**	17 416
		44 328	26 315	**88 479**	80 236
Total assets		**477 527**	462 503	**617 684**	616 013
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	**128 000**	128 000	**128 000**	128 000
Non-distributable reserves	**2**	**167 501**	166 847	**168 899**	167 975
Retained income		**32 294**	13 015	**86 848**	77 035
		327 795	307 862	**383 747**	373 010
Minority interest		**–**	–	**33 774**	40 926
Total equity		**327 795**	307 862	**417 521**	413 936
Non-current liabilities					
Long-term borrowings	**3.1**	**116 677**	129 852	**116 677**	129 852
Long-term provisions	**3.2**	**3 498**	3 035	**3 498**	3 035
Deferred tax		**–**	–	**1 272**	1 386
Total non-current liabilities		**120 175**	132 887	**121 447**	134 273
Current liabilities					
Bank overdrafts		**–**	–	**3 828**	–
Accounts payable		**29 557**	21 754	**73 117**	65 152
Taxation		**–**	–	**1 771**	2 652
Total current liabilities		**29 557**	21 754	**78 716**	67 804
Total liabilities		**149 732**	154 641	**200 163**	202 077
Total equity and liabilities		**477 527**	462 503	**617 684**	616 013

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Note	Corporation 2006 M'000	Corporation 2005 M'000	Group 2006 M'000	Group 2005 M'000
Net cash flow from operations	**16.1**	**31 521**	46 267	**71 113**	90 379
Returns on investments	**16.2**	**(7 676)**	(9 591)	**(6 478)**	(9 078)
Capital expenditure	**16.3**	**(5 590)**	(24 386)	**(19 963)**	(31 603)
Dividends paid		**–**	–	**(32 969)**	(24 085)
Taxation paid		**–**	(2 043)	**(16 086)**	(9 377)
Management of liquid resources	**16.4**	**2 545**	(11 630)	**9 291**	1 356
Financing	**16.5**	**(12 714)**	(1 027)	**(12 712)**	(1 027)
Increase in cash in year		**8 086**	(2 410)	**(7 804)**	16 565
Cash at beginning of year		**18 128**	20 538	**32 780**	16 215
Cash at end of year	**16.6**	**26 214**	18 128	**24 976**	32 780



NOTES TO THE FINANCIAL STATEMENTS

	Corporation		Group	
	2006 **M'000**	2005 M'000	**2006** **M'000**	2005 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	**19 800**	50	**19 800**	50
Received during the year	**1 051**	19 750	**1 051**	19 750
Transferred to income statement	**(725)**	–	**(725)**	–
At end of year	**20 126**	19 800	**20 126**	19 800
Capital grants				
At beginning of year	–	–	–	402
Adjustment during the year	–	–	**185**	(402)
At end of year	–	–	**185**	–
Total development grants	**20 126**	19 800	**20 311**	19 800
2.2 Bonus shares				
Capitalisation of post acquisition profits earned by a subsidiary				
At beginning of year	–	858	–	858
Written off during year	–	(858)	–	(858)
At end of year	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2006	2005	**2006**	2005
		M'000	M'000	**M'000**	M'000
2.	**NON-DISTRIBUTABLE RESERVES (continued)**				
2.3	**Unrealised surplus**				
	Surplus on revaluation of land and buildings				
	At beginning of year	**143 047**	143 044	**143 047**	143 456
	Movement during the year	**–**	3	**–**	(409)
	At end of year	**143 047**	143 047	**143 047**	143 047
2.4	**Unrealised surplus**				
	Arising on the acquisition of subsidiaries				
	At beginning of year	**–**	–	**–**	379
	Movement during the year	**–**	–	**413**	(379)
	At end of year	**–**	–	**413**	–
2.5	**Attributable share in Associated Companies**				
	Share premium	**–**	–	**400**	400
	Capitalisation of accumulated profits	**328**	–	**328**	328
	Capital redemption fund	**–**	–	**400**	400
		328	–	**1 128**	1 128
2.6	**Capital Redemption**				
	Capitalised revenue reserve to finance redemption of preference shares	**4 000**	4 000	**4 000**	4 000
		167 501	166 847	**168 899**	167 975
3.	**LONG-TERM LOANS**				
	Loans outstanding as detailed below:	**127 799**	138 256	**127 799**	138 256
	Less: Current maturities included in accounts payable	**(11 122)**	(8 404)	**(11 122)**	(8 404)
		116 677	129 852	**116 677**	129 852

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Group 2006 M'000	2005 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)
European Investment Bank Global Loan I		
4% and 8% loans repayable in eight years commencing 1 March 1991	**228**	303
European Investment Bank (Industrial Estate)		
5% loan of ECU 1.4 million repayment schedule Not yet agreed	**8 594**	11 576
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	**12 182**	12 602
KFW (OLD)		
3/4% loan repayable over fifteen years after a five year grace period from a date to be determined	**751**	883
ODA 1		
8% loan repayable in fifty half yearly instalments commencing 1 June 1988	**76**	113
ADB		
4% loan repayable in twenty yearly instalments commencing 1 July 2000	**21 778**	23 556
ODA II		
8% loan. Repayable over 25 years commencing 1 July 1991	**201**	216
Carried forward	**43 816**	49 241

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Group	
	2006	2005
	M'000	M'000
3. LONG-TERM LOANS AND PROVISIONS (continued)		
3.1 Corporation (continued)		
Brought forward	**43 816**	49 241
ODA III		
8% loan. Repayable over 25 years commencing 1 July 1991	**263**	292
ODA 1st line of credit		
7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	**1 487**	1 654
KFW (HA NYENYE)		
5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	**3 994**	4 993
ODA 2nd line of credit		
7% loan, ODA line of credit. Repayable over 25 years commencing 26 September 1996	**3 822**	4 003
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	**3 295**	3 814
European Investment Bank C		
1% loan from EIB to GOL On-lent to LNDC repayable in ten equal annual instalments	**594**	726
Development Bank of Southern Africa		
12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	**499**	1 194
GOL – LNDC Centre		
5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	**6 300**	7 700
Nedbank Lesotho		
Interest is charged at prime minus 4% repayable in 10 years starting from 11 November, 2003 after 12 months moratorium	**7 888**	8 820
GOL - Basotho Cannery	**2 963**	2 941
Total Corporation loans	**127 799**	138 256
3.2 Long Term Provisions		
Severance pay made in accordance with Section 79 of the Labour Code Order 1992	**3 498**	3 035

	Corporation		Group	
	2006 M'000	2005 M'000	**2006 M'000**	2005 M'000
4. FIXED ASSETS				
4.1 Cost or valuation				
Land and buildings	**426 663**	423 673	**456 955**	451 663
Plant, vehicles, furniture and equipment	**8 721**	8 496	**152 680**	147 385
	435 384	432 169	**609 635**	599 048
Accumulated depreciation				
Land and buildings	**25 491**	22 536	**46 338**	39 729
Plant, vehicles, furniture and equipment	**6 636**	5 933	**80 392**	77 686
	32 127	28 469	**126 730**	117 415
Net book value	**403 257**	403 700	**482 905**	481 633

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.

Name	Principal activity	**Equity held 2006 %**	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	**Net interest 2006 M'000**	Net interest 2005 M'000
5. INTEREST IN SUBSIDIARIES							
5.1 Active subsidiaries							
Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	**100**	100	9 585	–	9 685	9 685
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	11 725

	2006 M'000	2005 M'000
5.2 Provision for losses in subsidiaries:		
Balance at beginning of year	**16 506**	16 506
Provision reversed	**–**	–
Increase in provision	**–**	–
	16 506	16 506

	Corporation		**Group**	
	2006 M'000	2005 M'000	**2006 M'000**	2005 M'000
6. INTEREST IN ASSOCIATED COMPANIES				
6.1 Summary				
Shares at cost	**564**	236	**236**	236
Share of non-distributable reserves	**–**	–	**1 128**	1 128
Share of retained income	**–**	–	**27 026**	25 519
	564	236	**28 390**	26 883
Directors' valuation			**28 390**	26 883

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	
Lesotho Food Industries (Pty) Ltd	Investment in LM Co		39,7	
OK Bazaars Lesotho (Pty) Ltd	Retailers		50	
Sun International Lesotho (Pty) Ltd	Hotel and casino		20	

6. INTEREST IN ASSOCIATED COMPANIES (continued)

Cost of equity M'000	Non-distributable reserves M'000	Distributable reserves 31.03.06 M'000	Total interest M'000	Note	Total interest 31.03.05 M'000
20	400	2 755	3 175	3	3 023
66	–	12 129	12 195	3	13 345
150	400	7 862	8 412	3	7 115
–	328	4 280	4 608	3	3 400
236	1 128	27 026	28 390		26 883

	2006 M'000	2005 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

	2006 M'000	2005 M'000
Unlisted equity shares:		
Lesotho Housing and Land Development Corporation	**958**	958
Frasers	**14**	14
Lesotho Pharmaceutical Corporation (LPC)	**496**	496
Zero coupon loan stock (RSA Govt. Bond)	**15 544**	13 679
	17 012	15 147

8. LONG-TERM DEBTORS

	2006 M'000	2005 M'000
CORPORATION AND GROUP		
Loan debtors at varying rates of interest and repayment terms	**641**	1 121
Unrealised foreign exchange losses (per policy 2.9)	–	4 259
	641	5 380

9. INVENTORIES

	2006 M'000	2005 M'000
GROUP		
Raw materials	**6 723**	4 484
Finished goods and merchandise	**18 641**	15 564
Consumable stores	**3 304**	3 357
Work in progress	**984**	1 836
Total stocks	**29 652**	25 241

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2006	2005	**2006**	2005
	M'000	M'000	**M'000**	M'000
10. ACCOUNTS RECEIVABLE				
VAT	**2 880**	5 487	**2 880**	5 487
Realised foreign exchange losses due from Government of Lesotho	**190**	190	**190**	190
Building rental	**6 104**	7 866	**6 104**	7 866
Provision and other debtors	**8 940**	(5 356)	**20 849**	8 672
	18 114	8 187	**30 023**	22 215

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	
	2006	2005	**2006**	2005
	M'000	M'000	**M'000**	M'000
(a) Corporation				
Associates	**610**	610	–	–
Third parties	–	800	–	800
	1 410	1 410	–	800
(b) Group				
Associates	**610**	610	–	–
Third parties	–	800	–	800
	610	1 410	–	800

12. COMMITMENTS

Capital commitments contracted for:				
– Buildings and equipment	–	6 970	–	6 970
Authorised but not committed:				
– Buildings and equipment	–	–	**13 702**	12 831
	–	–	**13 702**	12 831
Total capital commitments	–	6 970	**13 702**	19 801

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

13. TURNOVER

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

	Corporation		Group	
	2006 M'000	2005 M'000	**2006 M'000**	2005 M'000
14. OPERATING PROFIT FOR THE YEAR				
Stated after crediting or charging the following:				
Income				
Profit on disposal of fixed assets	**–**	1 190	**–**	1 190
Interest	**4 065**	3 953	**5 263**	5 608
Rents	**32 922**	35 643	**39 922**	35 643
Income from subsidiaries – dividends	**34 315**	20 604	**–**	–
Expenses				
Depreciation and amortisation of fixed assets	**3 658**	9 442	**18 751**	18 356
Auditors remuneration: Audit fees	**146**	140	**306**	250
Interest	**11 741**	13 544	**11 741**	14 686
15. TAXATION				
15.1 Normal tax on current profits	**5 044**	2 043	**15 205**	11 337
Deferred tax	**00**	–	**(114)**	111
	5 044	2 043	**15 091**	11 448

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.

		Corporation 2006 M'000	Corporation 2005 M'000	Group 2006 M'000	Group 2005 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	**22 572**	6 641	**42 781**	45 456
	Return on investment	**7 676**	9 591	**6 478**	9 078
	Depreciation	**3 658**	9 442	**18 751**	18 357
	Profit on sale of fixed assets	**–**	(1 190)	**–**	(1 190)
	Amortisation of grants	**(725)**	–	**(725)**	–
	Associates income	**–**	3 473	**4 682**	3 473
	Prior year adjustment	**1 751**	2 006	**1 751**	2 006
	Grants received	**1 051**	19 750	**1 649**	19 750
	(Decrease)/Increase in stock	**–**	–	**(4 411)**	4 933
	Decrease/(Increase) in debtors	**(9 926)**	(801)	**(7 808)**	306
	Increase/(Decrease) in creditors	**5 464**	(2 645)	**7 965**	(11 789)
	Net cash inflow from operating activities	**31 521**	46 267	**71 113**	90 379
16.2	**Returns on investments**				
	Interest received	**4 065**	3 953	**5 263**	5 608
	Interest paid	**(11 741)**	(13 544)	**(11 741)**	(14 686)
		(7 676)	(9 591)	**(6 478)**	(9 078)
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(5 931)**	(26 137)	**(20 304)**	(39 130)
	Receipts from sale of fixed assets	**341**	1 751	**341**	7 527
		(5 590)	(24 386)	**(19 963)**	(31 603)

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation 2006 M'000	Corporation 2005 M'000	Group 2006 M'000	Group 2005 M'000
16.	**NOTES TO THE CASH FLOW STATEMENT (continued)**				
16.4	**Management of liquid resources**				
	Decrease in amounts owing by associates	**(329)**	14	**–**	14
	Decrease in amounts owing by subsidiaries	**–**	(10 174)	**–**	–
	Decrease\(Increase) in loan debtors	**4 739**	185	**4 739**	184
	Decrease/(Increase) in other investments	**(1 865)**	(1 655)	**4 552**	1 158
		2 545	(11 630)	**9 291**	1 356
16.5	**Financing**				
	(Decrease) in long term loans	**(13 175)**	(1 027)	**(13 175)**	(1 027)
	Increase in long term provisions	**461**	–	**463**	–
		(12 714)	(1 027)	**(12 712)**	(1 027)
16.6	**Analysis of cash at end of year**				
	Bank balances and cash	**950**	2 764	**3 540**	17 416
	Bank overdraft	**–**	_	**(3 828)**	_
	Short term investments	**25 264**	15 364	**25 264**	15 364
		26 214	18 128	**24 976**	32 780
17.	**PRIOR YEAR ADJUSTMENT**				
	Provision for investment in and loan to Loti Brick	**1 751**	2 006	**1 751**	2 006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