


Lesotho National Development Corporation

Annual Report 2006/2007

With compliments of the Board of Directors, Management and Staff

LNDC

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 LNDC (Amendment) Act No. 7 of 2000.

LNDC mandate

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

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

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

Capital Structure

In 2006/07 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 was constituted as follows: Foreign Investment Division; Domestic Investment Division; Investment Services Division; Property Management Division; Projects Management Services Division; Finance and ICT Division; Internal Audit and Risk Assessment Division; Human Resources and Administration Division; Legal Corporate Governance 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 organisational structure is presented on page 3.

Reporting

Section 19 (1) of the LNDC Order requires the Corporation to submit a report on the status of its affairs at the end of every financial year. It is in accordance with these statutory requirements that the LNDC presents this edition of its Annual Report for the financial year April 1, 2006 to March 31, 2007. 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 corporate strategic position of the Corporation is premised on following:

Vision:

By year 2020, LNDC shall be one of the leading development finance institutions in the SADC region and shall actively contribute to the attainment of 80% employment rate in Lesotho and graduation of Lesotho from the least developed country status

Mission:

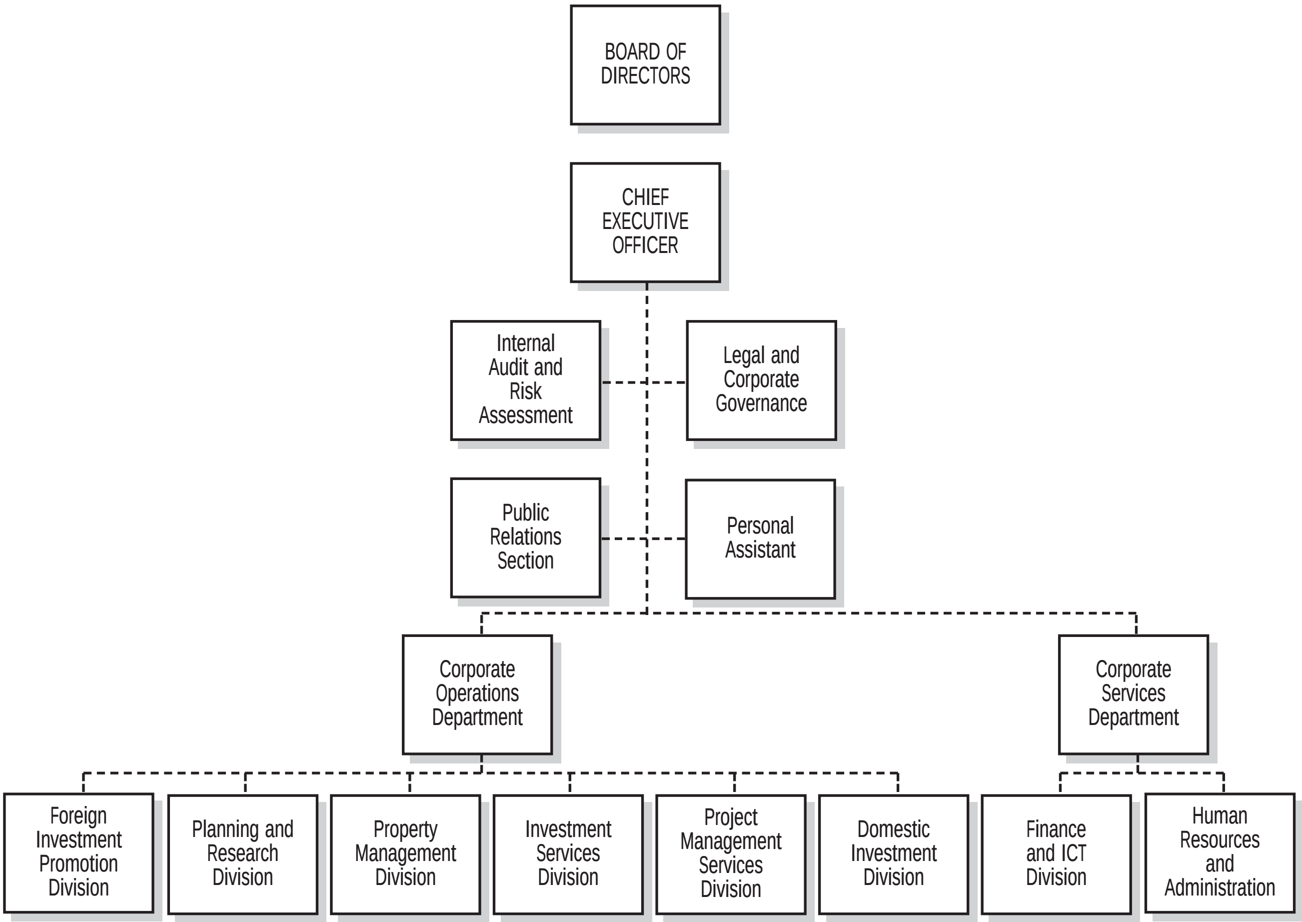
Our mission is to generate wealth and employment for the nation by promoting sustainable investment and establishing financially and economically viable medium to large scale enterprises.

Corporate Goals

- To develop and expand Lesotho's industrial base through promotion of foreign direct investment
- To foster participation of Basotho entrepreneurs in the private sector
- To expand the Corporation's income base
- To develop a highly professional and motivated staff
- To develop a culture of quality service
- To enhance the Corporation's image locally and externally

LNDC ORGANISATIONAL STRUCTURE

2006/2007



LNDC BOARD OF DIRECTORS

end of financial year 2006/2007

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
Ministry 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
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Telephone:266-22 312012
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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 2006/2007

EXECUTIVE TEAM

Mr Peete Molapo
Chief Executive Officer

Mr Sam Mphaka
Chief Corporate Services

Mr Motebang Mokoaleli
Head, Foreign Investment

Mr Mokhethi Shelile
Head, Domestic Investment

Mrs 'Mathabo Klass
Head, Investment Services

Mr Lebohang Mofammere
Head, Property Management

Ms Lucy Mataboe
Head, Human Resources and Administration Division

Mr Clark Taelo Poopa
Head, Legal and Corporate Governance

Ms Teboho Lekalakala
Head, Internal Audit and Risk Management

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 and Communications 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 2007.

2006/07 was marked by some positive developments that mitigated to some extent the deleterious effects of the expiry of the Multi-fibre Agreement (MFA) at the beginning of 2005. These developments have cleared some serious uncertainties that had hitherto brought the garment industry to a total standstill in AGOA eligible countries including Lesotho. In the aftermath of the expiry of the MFA in 2005, the garment industry in Lesotho took a serious knock that saw more than ten companies closing down and a significant number of jobs lost. The new lease of life in the industry was brought about by the extension of the AGOA 3rd country fabric sourcing provision, commonly known as AGOA 4, passed in December 2006 by the US Administration,

AGOA 4 is a sequel to AGOA 2 and AGOA 3 passed by US Congress in August, 2002 and July, 2004 respectively. AGOA 4 legislation primarily introduced new amendments to AGOA 2 and AGOA 3. First, AGOA 4 extended the AGOA programme to 2015. Second, it extended the 3rd country fabric sourcing provision by 5 years to 2012. It also extended the Generalised System of Preferences (GSP) to the end of 2008. More importantly, the legislation has for the first time introduced the 'abundant supply' provision. This provision gives preference for the usage of African-made fabric in the manufacture of garments for export to the US market in order to foster vertical integration of the garment industry. If successfully implemented, vertical integration will assist the Lesotho garment industry to achieve shorter lead times as well as to comply with long term market access requirements of the US market.

Developments in the operating environment have set the tone for the good performance of the garment industry in Lesotho. During the review year, the Corporation attracted 7 foreign direct investment (FDI) projects with a total investment value of M60,9 million. This is against 4 FDI projects attracted in the previous year with an investment value of M7 million. The new projects created 3 870 new jobs compared to 849 new jobs in the previous year. In value terms, exports however, declined marginally to USD397 million compared with USD391 the previous year. As a result of the attraction of new investments, the LNDC portfolio of companies rose to 72 from 65 in 2005/06. The aggregate employment of the leasehold portfolio rose by 18% from 44 318 the previous year to 52 169 during the reporting year.

The year under review saw the Board approve the LNDC Blueprint that laid up an operational framework for the implementation of the Corporation's strategic plan. The Blueprint restated the mission and the vision of the Corporation but above all streamlined the strategic objectives and provided a road map for implementation. The focal strategic areas for LNDC interventions were identified as follows:

- Diversification of export products and markets
- Retention and support of the existing textile and garment industry
- Promotion of vertical integration through development of relevant supply chains
- Promotion and support of local resource based industries
- Fostering joint ventures, partnership between small and big businesses and linkages
- Building of internal institutional capacity to enable delivery.

The Blueprint also emphasised the importance of bringing on board strategic stakeholders to provide support to the Corporation to ensure successful implementation. Five key stakeholders were identified as government, business enterprises, financial institutions, business associations, trade unions, and

STATEMENT BY THE CHAIRMAN

(continued)

the international donor community. Among these stakeholders, government was considered to play the most important role of providing the Minimum Infrastructure Platform (MIP). In short MIP primarily constitutes physical infrastructure, trade and investment facilitation, business environment, human capital and financial services.

The reporting period also saw the Corporation steadfastly continuing to support the promotion of the local private sector within its fairly tight financial constraint. LNDC facilitated the participation of more than 17 local companies to a Lesotho Investment Promotion mission in Germany. The aim of the mission was to foster joint ventures between local business and German business as well as to establish new business relationships.

13 local projects were handed over to different German companies for financial and technical assistance.

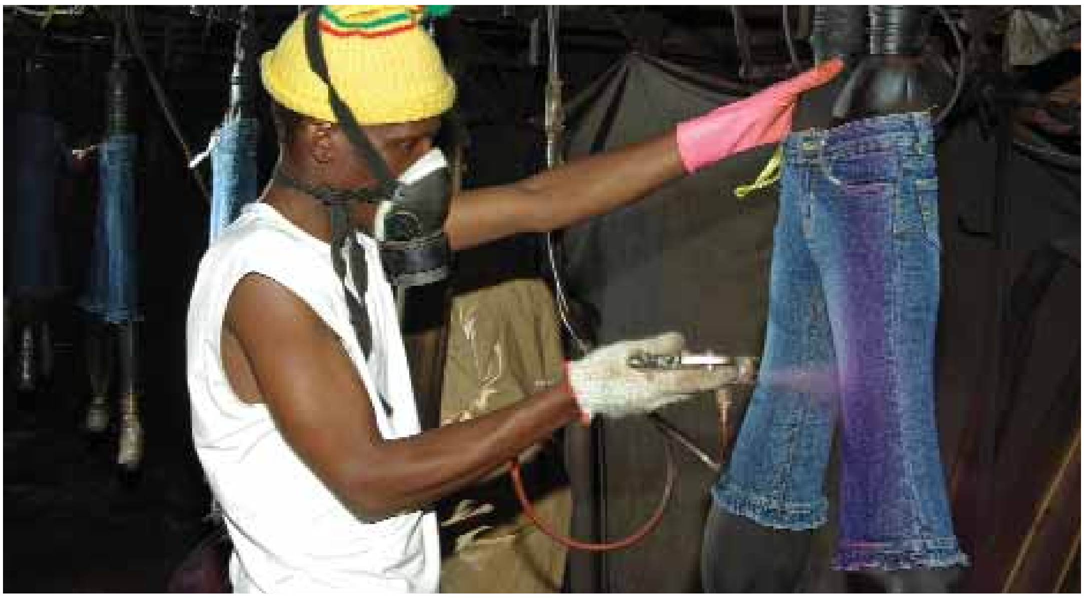
The Corporation also gave exposure to local companies through the EU - SADC Investment Promotion Mines 2006 forum held in Lusaka, Zambia. The companies that took part in the forum managed to forge relations within the mining sector with the EU and SADC partners.

During the reporting period, LNDC organised for the first time the LNDC/Private Sector Consultative Forum for the indigenous private sector. The workshop was attended by more than 115 people from the private sector, organised labour, NGO's and government ministries. The objective of the forum was to inform the private sector about the Corporation's planned policy interventions and at the same time solicit inputs from the sector on how best LNDC can address their concerns.

LNDC will continue to support the garment sector. It is also going to focus more on private sector development and the consultative forum that was held is the first step towards achieving this. LNDC will continue to promote projects that are geared towards diversification of both the markets and the products.

The Corporation made a loss after tax of M1,2 million during the year 2006/07, which resulted in a decline in the overall growth in the Corporation's total assets. However a prior year adjustment which was effected in 2006/07 increased the shareholders' equity by 1,4%.

D M Rantekoa
Chairman



CHIEF EXECUTIVE'S REPORT

General

Overall employment generated by the LNDC portfolio of companies comprising mainly textile and garment factories increased from 44 318 in 2005/06 to 52 169 in 2006/07. The growth in employment was attributable to 7 projects that started operating during the year. They created 3 870 new jobs compared to 849 new jobs and 4 projects last year. It was further increased by the expansion of one factory which employed additional 100 people.

As in 2004/05 when the Multifiber Agreement (MFA) expired, the textile and garment manufacturing industry had a rocky ride in 2006/07. There was apprehension and uncertainty in relation to the future of the garment industry in Lesotho caused by the concern over the imminent expiry of the 3rd country fabric sourcing provision in December 2006. This provision forms part of the Africa Growth and Opportunity Act (AGOA) and allows less developed counties like Lesotho to source fabric anywhere in the world. Garment buyers scaled down their orders and producers also reduced their production levels due to the uncertainty. This situation continued for the good part of the year and only came to an end at the very end of the year when on December 8 2006 the US government enacted the extension of trade preferences under AGOA. The revised Act entailed the extension of the 3rd country fabric sourcing provision until 2012, with a 3.5% cap for all qualifying garments exports to the US. It also introduced an 'abundant supply incentive' to qualifying African AGOA eligible least developed (LDC) countries. The purpose of this incentive was to encourage investment in fabric production in Africa in order to support regional integration as well as vertical integration in the textile and garment industry.

In order to hedge against economic shocks emanating from the US market that adversely affect Lesotho's exports, LNDC focused its investment promotion on diversification of products and markets. Since 2005 LNDC focus in investment promotion has been targeted at investors that originate within the SADC region and hence inclined to support that market. Another area of emphasis has been to target investors interested to supply the EU market as part of our efforts to reduce dependence on the US market. Good progress has been achieved in this regard. Through direct LNDC efforts, the Nien Hsing Group - a denim products manufacturing company in Lesotho - is now supplying Penny/Primark, one of the major retailers in the EU. LNDC has also been able to attract 6 garment investments from the region during this period. These companies are focusing on the regional markets and are producing high value added garment products.

Promotional missions were also undertaken to the Far East in search of investors interested in other areas other than textiles and garments, with special bias towards electronics, electrical appliances and pharmaceuticals.

A. OPERATIONAL ACTIVITIES

Foreign Investment Promotion

LNDC attaches a great deal of importance to the garment industry as an engine of growth in Lesotho. The industry has recorded outstanding success in employment creation and enhancing the country's image abroad as a textile and garment exporter of choice. It goes without reason therefore that during the year under review one of LNDC's major objectives was to retain and grow the industry. To achieve this objective, the strategy was to diversify products and markets and to facilitate vertical integration of the industry.

During the review year the Corporation attracted 7 new foreign direct investment (FDI) projects with an investment value of M60,9 million. Six of the projects were in high value garment production while the other project was in laundry. The newly scooped laundry is expected to fill one of the most important gaps in the supply chain critical to improve the competitiveness of the industry in Lesotho. It is important to note that all the new FDI projects were from South Africa with a special focus on regional markets, in particular South Africa. The 7 FDI projects were a clear demonstration that it is possible for Lesotho to diversify its export products and markets, develop requisite supply chains and vertically integrate the industry.

During the year the number of jobs created by the new projects stood at 3 870 as mentioned above. The new jobs that were created during the year are substantially higher than the 2005/06 figure of 849. The large increase in new jobs created during the year is attributable to 7 new FDI projects which were more than 4 realised in 2005/06. Secondly, 6 of the new FDI projects that were implemented during the year were bigger in size and more labour intensive as compared to the 4 smaller projects implemented in 2005/06.

The LNDC leasehold portfolio recorded 17.7% growth in jobs created at 52 169 compared to 44 318 in 2005/06. The increase in total jobs created was attributable to three main factors. First, the industry was recovering from the effects of MFA expiry that resulted in declining orders to the US market in the previous year. The declining orders resulted in retrenchment of workers, and increase in casual and short time workers. In 2006/07 the orders situation improved somewhat after the US and EU imposed safeguards on Chinese imports to their markets. Second, the extension of the 3rd country sourcing provision as mentioned above cleared the uncertainty on the buyers' side and encouraged the flow of orders to Lesotho. Third, during the last quarter of 2005/06 LNDC embarked on promotional missions designed to diversify the markets and products. The 7 new projects that started operations during the year under review is a testimony of that effort.

Investment promotion and facilitation activities undertaken during the year led to the evolution of a healthy pipeline of projects with high probability to take off. By the end of the year LNDC had 40 pipeline projects with an investment value of M745 million and employment potential of 13 340 compared to 28 in 2005/06 with an investment value of M618 million and employment potential of 10 680.

LNDC made investment promotion presentations at 4 investment promotion events during the year. In total LNDC made presentations to 85 companies. Promotional missions were also undertaken in Taiwan and presentations made to 13 business associations and representatives of Chambers of Commerce. These events took place in October, 2006. The Taiwanese business community was interested to invest in projects related to electronic security gadgets in Lesotho to serve local and South African markets. From Taiwan LNDC mission visited New Delhi, India where 35 presentations were made at the 3rd Conclave on India-Africa partnership.

The Corporation also part of the Lesotho mission that participated at China-Africa business Forum held in Beijing in November, 2006 led Honourable Prime Minister. At that forum LNDC was able to make 3 presentations to business associations that were interested to invest in Africa. During the same month an investment promotion mission was also undertaken to Kwazulu Natal in South Africa. The purpose of the mission was to attract denim garments manufacturers to expand their operations to Lesotho in order to take advantage of the denim fabric which is produced locally.

Promotion activities that took place during the year generated investment interest in Lesotho to an extent that 6 potential investors came to Lesotho to explore investment opportunities.

Trade negotiations and Market Access issues

LNDC also participated in several meetings related to the SADC Finance and Investment Committee, SACU-USA Free Trade Agreement negotiations, EU Economic Partnership Agreement and Southern African Customs Union.

Domestic Investment Promotion

LNDC considers promotion of local entrepreneurship and business as critical to sustained growth and development of the country. To this end, the Domestic Investment Division has been established as an institutionalised vehicle through which the indigenous private sector, particularly, SMEs can be supported and developed. The Corporation promotes the local private sector through facilitation of joint ventures, vertical integration and linkages, mobilisation of financial resources and technical assistance.

Among the notable promotional efforts during the year under review, LNDC facilitated the participation of more than 17 local companies in the Lesotho Investment Promotion mission in Germany. The aim of the mission was to foster joint ventures between local business and German business as well as to establish new business relationships. The embassy of Lesotho in Germany played a pivotal role in planning, facilitating and organising the trip in collaboration with LNDC. The Business delegation was led by the Minister of Tourism and Environment Honourable Lebohang Ntsinyi and her contribution was highly appreciated by both business communities given her familiarity with the German economic and political terrain as former ambassador of Lesotho in that country.

Business meetings were held with local business associations in two main strategic cities, namely, Stuttgart and Dusseldorf. The Lesotho Business Community presented a range of projects to their German counterparts. The projects presented by Lesotho business were from sixteen (16) different sectors such as diamond mining, tourism, import/export services, agro processing, light engineering, assembly of consumer electronics, pharmaceuticals, water bottling, waste recycling etc.

In August 2nd 2006, LNDC organised for the first time the LNDC/Private Sector Consultative Forum for the indigenous private sector in Lesotho. The workshop was attended by major business associations and key business personalities in the country. The purpose of the workshop was to engage in a dialogue with the private sector on how the two can jointly build a lasting and effective partnership in the development and growth of the private sector in Lesotho. There were 115 participants from the private sector, government ministries and departments as well as non governmental organisations. LNDC took advantage of the forum to inform the private sector on how it operates and about the challenges it faces in promoting private sector development in Lesotho. It also presented its new policy direction for interrogation by the private sector. The key message put to the private sector was that even though LNDC had succeeded in promoting FDI through the textile and garment industry, it had receded and somewhat lost touch with the local private sector. The challenge was then on how to bring LNDC back to its original mandate of developing and supporting the indigenous private sector in Lesotho.

The forum debated on 7 strategic interventions that LNDC proposed, namely:

- Promotion of local resource based industries
- Promotion of industrial linkages
- Diversification of export products and markets
- Promotion of services for export
- Provision of support services to the private sector
- The Enterprise Development Framework (EDF)
- Development of Equity Market.

The Corporation went further to inform the forum on how it was planning to review its organisational structure in order to build capacity that would enable it to deliver on its newly proposed strategic objectives for supporting the local private sector.

The forum deliberated at length on the proposed EDF which laid a framework for the introduction of new financial products by LNDC to facilitate development of the local private sector. Among others, the EDF proposed the following instruments that would make a quick impact and were high among the list of constraints on local private sector development:

- A Credit Guarantee Facility
- Equity Participation Fund, and
- Wholesale Project Financing through local financial intermediaries.

The forum concluded on the note that LNDC would report back to the private sector on its performance on the above issues on an annual basis.

During the year under review the Corporation commissioned a comprehensive study to identify products that can be efficiently produced in Lesotho given local skills availability and infrastructure. The study identified Lesotho's natural resources that could be processed into high value industrial products that are currently doing well in international and regional markets. Some of the products identified were water bottling, agro industries, tourism, mining and quarrying, wool and mohair as well as handicrafts.

In 2006/07 LNDC handed over 13 local projects to different institutions for financial assistance. 10 of the 13 projects were handed over to EU SADC Investment Promotion Programme (ESIPP) at the Mines 2006 Business Forum held in Lusaka Zambia on the 29th of November 2006. However, only two projects qualified to be included in the programmes of ESSIP. The remaining 3 projects were handed over to NORSAD for financial assistance. In 2005/06 6 projects were handed over to ESSIP's Light Engineering Business Forum. All 6 projects qualified for inclusion into the programme of projects that were seeking joint ventures.

LNDC took part in the Regional Workshop on Productive Capacities for Economic Growth and Poverty Reduction in Least Developed Countries

(LDCs). The Workshop was held in Addis Ababa, Ethiopia from the 22nd to 23rd February 2007. The workshop equipped the Domestic Investment Promotion Division with strategies on promotion of SMEs that can be pursued to promote national development with a view to reduce poverty.

The Division took part in the programme on Making Markets Work for the Poor (MMW4P) in Southern and Eastern Africa. The programme was held from the 12th to 15th March 2007 in Cape Town, South Africa. The programme described MMW4P as an approach to development that aims to harness the power of markets to fight poverty.

Investment Services

The portfolio of leasehold companies that the LNDC monitored stood at 72 in 2006/07 as against 65 in the previous year. The majority of companies, 42 were in textile and garment manufacturing, 7 in printing and packaging, 4 were in footwear, 2 in electrical appliances and electronics, as well as 9 commercial operations that form LNDC equity portfolio and in other categories 9.

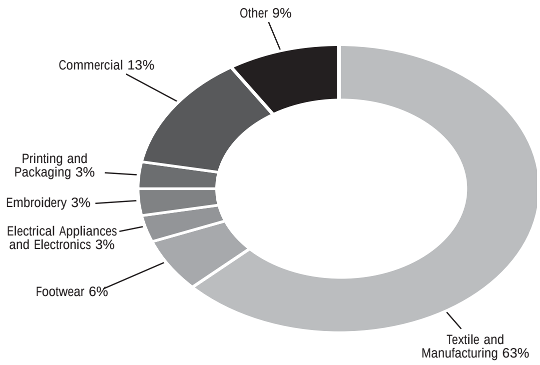
Two companies under LNDC leasehold portfolio closed during the year. These are C River and United Clothing. 2 368 jobs were lost due closure of these firms. However new jobs created during the same period were enough to offset the loss. 3 870 new jobs were created by 7 new companies established during the review year. Other old companies increased their employment levels too and the result was overall increase in the employment generated by LNDC assisted companies. These developments brought the total number of jobs created in 2006/07 to 52 169 compared with 44 318 in 2005/6.

Table 1

CATEGORY	2005/06	2006/07
Leasehold only Portfolio	56	63
LNDC Equity Portfolio	9	9
New jobs created	849	3 870
Total employment created	44 318	52 169

LNDC leasehold companies are spread across various sectors. The textile and manufacturing sector accounted for 63% of employment from these companies. Commercial sector employed 135, footwear 6%, printing and packaging, embroidery, electrical appliances and electronics each 3% and other categories employed 6%.

Sectoral distribution of LNDC Leasehold and Equity Portfolio



At end of calendar year 2007 exports to the US had declined marginally from US$387 million in 2006 to US$384 million due to the expiry of the MFA. However exports to other markets increased because of the new projects that were now exporting to other markets including South Africa in line with LNDC policy of market diversification.

In 2006/07 LNDC's equity portfolio consisted of 9 companies – 3 subsidiaries and 6 associate companies. Both subsidiaries and associates employed 1 250 people. Aggregate performance of the equity portfolio in terms of turnover and profits was M699,6 million and M85,9 million respectively. These companies are in agro-business, building and construction, essential services, wholesale and retail sectors.

Industrial Relations

LNDC mediated in 7 occasions where trade unions were negotiating with companies about wage increases, non compliance with certain provisions of the law by management and others.

Induction and Labour Code Familiarisation Meetings

LNDC facilitated 11 induction meetings that were meant to assist managers in the companies under

LNDC leasehold portfolio to understand the Lesotho Labour Laws, particularly on issues such as discipline, grievances, retrenchments and lay off handling, dealings with trade unions, strategies for harmonisation of employer-employee relations, payment of wages, requirements and status of a Wage Order and gazetted minimum wage.

Handling of Grievances

LNDC intervened in the handling of grievances lodged by employees against their employers in its 19 assisted companies. The grievances centred on violations of their rights or non compliance with the provisions of the Labour Code by management. LNDC facilitated 10 meetings with both management and the affected employees directly or through their representatives and provided them with standard grievance procedures that can be followed to resolve issues amicably.

Handling of Disciplinary Matters

LNDC further assisted 8 of its assisted companies in the handling disciplinary matters in order to avoid unnecessary and unfair dismissals that could cause conflicts between management and their employees.

Prevention and Resolution of Strikes and Lockouts

LNDC participated in the prevention and resolution of strikes in its 6 assisted companies during this period.

Customer Service

The Corporation also facilitated provision of Customer care services summarised in Table 2 below.

Table 2

TYPE OF ACTIVITIES	NUMBER
Visas	1 004
Work permits	41
Residence permits	9
Registration of companies	11
Manufacturing licences	5
Boarder pass permits	4
Pending permits	9
Registration with LRA	7
VAT credit facility applications	4

Property Management

In 2006/07 the Corporation's total property portfolio comprised of 164 units as against 163 in the previous year. One 6000m² factory shell was build for SA Clothing at Nyenye industrial area and a 4000m² factory shell for P & T Textiles in Mafeteng was refurbished after being destroyed by fire.

Nyenye Clothing is a subsidiary of SA Clothing. SA Clothing is one of the largest textile and clothing companies in South Africa. Its head office is in Durban and has subsidiary companies located in Durban, Isithebe, Ladysmith and Tongaat. The total factory space occupied by all the companies is 57 000m² and the total employment of the group is 3 500 people.

In Lesotho the company has initially employed 800 Basotho and the promoters have indicated a strong desire for an additional 5 000m² extensions to be constructed. Such an extension is expected to create with it an estimated 700 additional jobs for Basotho. The company's intention is to relocate all the production of men's trousers from Kwazulu Natal to Lesotho. The total amount invested was M4,4 million while LNDC spent M18 million to erect the factory shell.

The real estate asset inventory was also carried out during the year. Total property portfolio comprised of industrial portfolio which was the highest component at 84.2%. Commercial followed at 5.5% and then residential 4.9%, office 3.6% and shopping centres at 1.8%. On the retail, commercial and residential portfolios side the demand conditions were favourable. The occupancy rates by these categories were quite high as explained below.

Industrial – In the Financial year 2006/07 Industrial occupancy rate improved from 79.3% last financial year to 83.58%. Mohale's Hoek estate, though still a poor performer showed slight improvement with occupancy rate of 12.5% as compared to nothing in the previous year. This was a positive demonstration of efforts that LNDC was undertaking to market the new industrial estate.

Commercial – The Commercial portfolio performed very well with the occupancy rate 98% against 96% in the previous year.

Residential – Residential component of the portfolio is small as it is only 4.9% of the total portfolio. Occupancy rate during the review year was 100%. This was against 98% the previous year.

Maintenance of existing buildings and infrastructure was the major activity in 2006/07 with a total cost of M2 393 460,58 broken down into M2 172 860,00 and M220 600,00 for planned and unplanned respectively. Compared to the previous year, there was a reduction of M1 088 101,00 in maintenance expenditure. The buildings and infrastructure maintenance expenditure in 2005/06 stood at M3 481 562,00. The maintenance budget was M2 4664 410 in the reporting year and planned maintenance cost as a percent of total annual maintenance was 90% and this demonstrated an efficient use of resources by JHI Real Estate.

B. CORPORATE SERVICES

Human Resources and Administration

Operationalisation of a new organisational structure

After 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 a new organisatisional structure was implemented. The basis for adopting a new structure was to promote functionality, efficiency and delivery. The structure defines the Divisions by function and activity. It consolidated the Corporations' common functions to provide more focus. The new structure was also meant to promote accountability, free workflow, time efficiency and quick results.

Policies and Regulations Audit

The Corporation enlisted the services of a consultant to audit its policies and develop a framework with which LNDC can use to formulate its policies. The exercise was meant to assist LNDC to ensure that it formulates policies and procedures that support the new structure. It was also to ensure that the already existing policies are well documented.

Procurement of the Corporations Cars

The Corporation does quarterly inspections on some of its properties and from time to time it has to show potential investors sites at which they can establish their factories. Getting to some of these places has proved to be a bit of a challenge to get to using low ground clearance vehicles as such LNDC purchased a 4x2 pool to enable easier access to these sites. It also bought two cars for two Heads of Divisions that were due for replacement.

Recruitment and training

The Corporation also facilitated recruitment of a driver and Internal Audit Officer during the year. The Corporation continued to invest in the development of its human resources. The Corporation trained at least 17 staff members in their respective fields through various short courses at the total cost of M74 422,30.

Table 3: Training courses attended by LNDC staff

TRAINING PROGRAMME	PARTICIPANTS	DATES
WEB Development Course	IT Manager	8-12 May 2006
Foreign Direct Investment and the Law: Understanding the Challenges and Maximising the Opportunities	Legal Officer	10-12 May 2006
Auditing Your Human Resources Function	Senior Internal Auditor	17-18 May 2006
Financial management for Project Managers and Engineers	Property Management Officer	12-13 June 2006
Programme on Investment Appraisal and Risk Analysis – Module 1	Senior Project Officers and Head Domestic Investment Promotion	12-23 June 2006
Strategic Market Analysis for International Business Development	Investment Promotions Manager	4-7 July 2006
Company Secretarial Workshop	Head, Legal and Corporate Governance	17-18 July 2006
Seminar on International Financial Reporting Standards	Senior Accountant and Accounts Officer	2 August 2006
SADC DFI Human Resources Development Forum	Head, Human Resources and Administration	23-25 August 2006
Programme on Investment Appraisal and Risk Analysis – Module 2	Three Project Managers	September 2006
Records and Information Management	Registry Clerk	24 July-1 September 2006
Public Finance Management: Focus on Private, Public Partnership and Project Finance	Two Project Managers	13-14 November 2006

CHIEF EXECUTIVE'S REPORT

(continued)

Public Relations

In 2006/07 the focus of the Corporation's public relation function was mainly on image building and marketing of Lesotho as an investment and sourcing destination of choice. The Corporation took full advantage of events that had the potential of promoting the good name of the country. Among the most important ones can be mentioned the following:

Tour by the Honourable Ministers to the Cotton Pilot Project fields

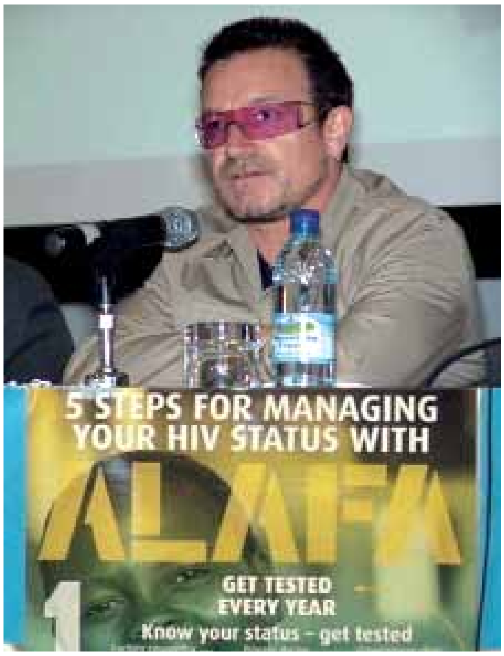
LNDC arranged a guided tour of the cotton pilot project for the Minister of Trade and Industry, Cooperatives and Marketing and the Minister of Agriculture and Food Security. The project trials had surpassed expectations by producing a yield of high quality and quantity. While the average podding per plant was 20 pods, some of the cotton plants in the project yielded as much as 50 pods per plant.

The project is a joint venture between LNDC and a Malaysian company to set up a fully integrated outfit which will manufacture garments from locally sourced raw material (cotton).

The Corporation also had a VIP visit to LNDC factories; the President of the United Republic of Tanzania, His Excellency Jakaya Mrisho Kikwete visited two of the Nien Hsing Group of Companies; namely, Formosa Textile Co. and Global Garments at the Thetsane Industrial Estate.

Launch of Apparel Lesotho Alliance to Fight Aids

A ground breaking industry-wide health intervention programme, Apparel Lesotho Alliance to Fight Aids (ALAFA) was launched in May 2006. ALAFA aims to fight HIV/AIDS in the garment industry by increasing



awareness and providing treatment for those infected with the virus. The launch was also attended by Irish rock star and activist, Bono who was visiting Lesotho as part of a six-nation listening and learning tour of Africa. The rock star pledged his support to the Government of Lesotho in lobbying for change in the European Union trade rules regulating duty-free imports.

In November, 2006 Bono's company, Edun made a donation of US$276 330 (approx. M2 million at that time) to ALAFA. The money was raised through the sale of the ONE t-shirt manufactured under the Edun label in a clothing factory located in Butha-Buthe. For every ONE t-shirt sold, an amount of US$10 was donated to ALAFA. ALAFA was established by ComMark Trust and funded by the Department for International Development (DFID).

Some of the highlights of 2006/07 included the continued cooperation between LNDC and the Industrial Development Corporation (IDC) following the signature of a Cooperation Agreement between the two Corporations. In November, 2006 IDC made a presentation to the Management of LNDC on its assessment of the major risk factors in LNDC and they offered suggestions on how to mitigate the identified risks.

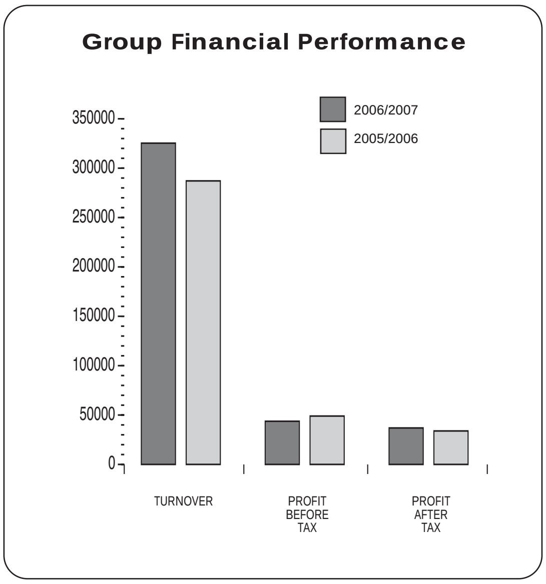
C. FINANCIAL PERFORMANCE

Operating Income

Group

The Groups turnover (T/O) increased from M287,1 million in 2005/2006 to M325.3 million in 2006/07. The increase was M38,2 million or 13%.

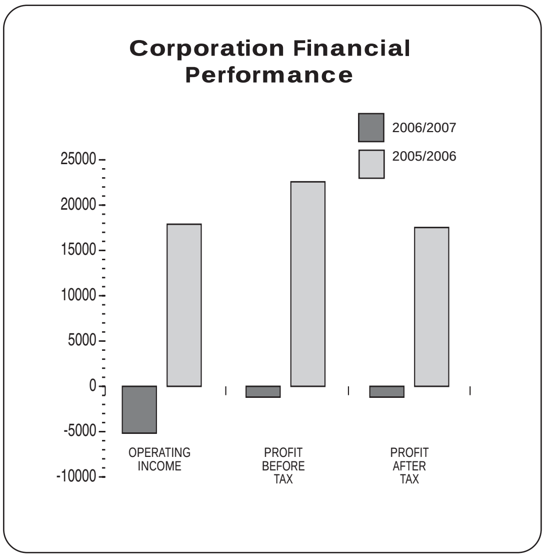
Profit before tax (PBT) decreased from M49,0 million in 2005/06 to M43,7 million in 2006/07. The decrease in the PBT was the result of poor control and management of expenses by some companies within the Group. However, Profit after tax (PAT) increased from M33,9 million in 2005/06 to M36,9 million in 2006/07. The major reason for the increase in PAT was a decrease in taxation from M15,1 million to M6,8 million for the years 2005/06 and 2006/07 respectively. As a result the decrease in PBT for the year, resulted in a decline of return on capital employed (ROCE) from 8.2% in 2005/06 to 7.9% in 2006/07. Due to the increase in PAT, earnings per share (EPS) increased from 26 lisente to 29 lisente. Figure 1 below summaries the Group's performance for the year and status at end of year.



Corporation

The Corporation's operating loss for the year was M5,2 million when compared to operating income of M17,9 million in 2005/06. Operating income decreased by M23,1 million or (128.9)%. The decrease was primarily attributable to a provision for bad debts for non performing subsidiary companies namely, Basotho Canners and Loti Brick. Reported PBT for the year was a loss of M1.2 million when compared with a profit before tax of M22.57 million in 2005/06. It was a decrease of M23,76 million or 105.28%. Reported PAT for the year was a net loss of M1,2 million while 2005/06 registered a net profit of M17,53 million. There was a decrease of M18,72 million or (106.8)%. ROCE decreased from 4.7% to 0.2% whilst EPS also decreased from 14 lisente to 0 lisente between 2005/06 and 2006/07. Figure 2 below depicts the above highlighted Corporation's performance for the year 2006/07 and status at the year-end.

TOTAL ASSETS, EQUITY AND LONG TERM



LOANS

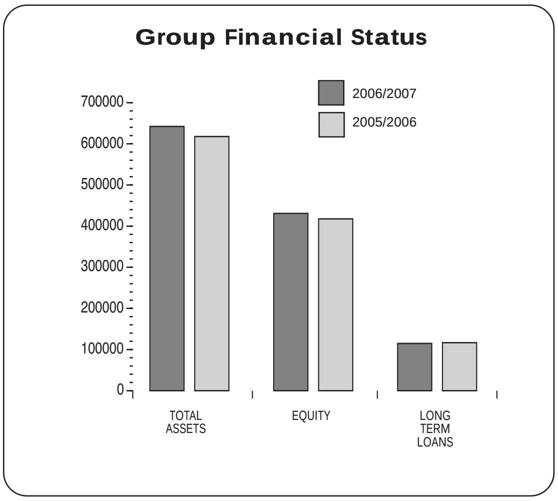
Group

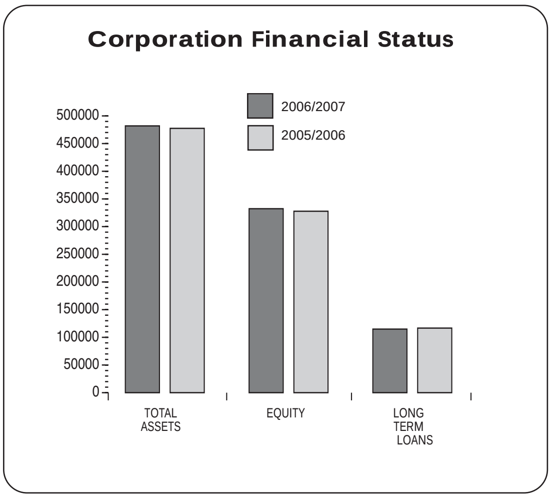
The Group's total assets grew insignificantly by M24,5 million or 103.9% from M617,7 million in 2005/2006 to M642,2 million in 2006/07.

The shareholders' equity also increased by M13,3 million or 103.18% from M417,5 million in 2005/06 to M430,1 million in 2006/07. The increase was mainly attributable to the profit generated during the year that resulted in an increase of M21.5 million in Retained Income. The long term loans (LTL) decreased by M1,8 million or 1.56% from M116,7 million in 2005/06 to M114,9 million in 2006/07. The decrease was attributable to repayments made during the year. Figure 3 below illustrates the situation.

Corporation

The Corporation made a loss after tax of M1,2 million during the year 2006/07 which resulted in a decline in the overall growth in the Corporation's total assets. The shareholders' equity increased by M4,6 million or 1.4%. Long term loans declined by M1,8 million because of loan repayments made during the year. A graphical presentation is shown in Figure 4:





Ratios analysis

Table 1	Group % Increase/ (decrease)	Group Increase/ decrease M'000	Group 31 Mar 2007 M'000	Group 31 Mar 2006 M'000	Corporation % Increase/ (decrease)	Corporation Increase/ decrease M'000	Corporation 31 Mar 2007 M'000	Corporation 31 Mar 2006 M'000
Turnover/ operating income	13.31	38 215	325 316	287 101	(128.89)	(23 059)	(5169)	17 890
Profit before tax	10.75	(5 266)	43 704	48 970	(105.28)	(23 764)	(1 192)	22 572
Profit after tax	8.95	3 032	36 911	33 879	(106.80)	(18 720)	(1 192)	17 528
Total assets	3.96	24 473	642 157	617 684	0.93	4 422	481 949	477 527
Equity	3.18	13 288	430 8091	417 521	1.39	4 556	332 351	327 795
Long-term liabilities	(1.56)	(1 821)	114 856	116 677	(1.56)	(1 821)	114 856	116 677
Return on capital employed	(14.15)	(1.12)	6.81	7.93	(105.23)	(4.97)	(0.2)	4.7
Earnings per share (Lisente)	8.95	(2.37)	28.84	26.47	(106.80)	(14.63)	(0.93)	13.69

Conclusion

The Group's financial position as at 31 March 2007 was good when compared with previous period as it registered a growth of M21,5 million or 24.7% in retained earnings and M24,5 or 3.97% in total assets.

FINANCIAL STATEMENTS

for the year ended 31 March 2007

Contents

Directors' Approval

The financial statements which appear on pages 25 to 40 were approved by the board of directors on 26 June 2008 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 2007

We have audited the financial statements and group financial statements for the year ended 31 March 2007 set out on pages 25 to 40. 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 2007 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 Act 1990.

Group

In our opinion the financial statements fairly present the financial position of the Corporation and Group at 31 March 2007 and of the results for the year then ended in conformity with International Financial Reporting Standards and in the manner required by the Lesotho National Development Corporation Act 1990.

L L Liphafa (Mrs)
AUDITOR GENERAL

STATEMENT OF GROUP ACCOUNTING POLICIES

1. PRINCIPAL ACTIVITIES

The Corporation operates under the Lesotho National Development Corporation Act No. 13 of 1990 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 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 a significant interest.

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 statements are for a period ended more than six months prior to the Corporation's year end the associated companies 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 Value

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 property, plant and equipment

2.6.1 Land and buildings

Since the commencement of the Land Act 1979, title to land in urban areas has been converted into leases as follows:

- ❑ 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; and
- ❑ in the case of land held for purposes of petroleum and oil sales and storage, not more than 30 years.

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

2.6.2 Plant and equipment:

The values of plant and equipment are depreciated on straight-line basis at the following minimum annual rates which are designed to reduce book values to estimated residual values over the expected useful economic lives of the assets concerned:

Motor vehicles	20%
Furniture, plant and equipment	10%
Computers	33.33%

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

2.9.1 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. Post that date, realised exchange differences are dealt with within the Income Statement. Unrealised exchange differences are held as suspense debtors or creditors until cleared.

2.9.2 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.

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 benefits 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 Section 79 of the Labour Code 1992 section 79.

INCOME STATEMENT

for the year ended 31 March 2007

	Notes	Corporation 2007 M'000	Corporation 2006 M'000	Group 2007 M'000	Group 2006 M'000
Turnover	**13**	**–**	–	**325 316**	287 101
Operating income/(loss)	**14**	**(5 169)**	17 890	**37 055**	42 781
Income from associates		**3 977**	4 682	**6 649**	6 189
Income/(Loss) before tax		**(1 192)**	22 572	**43 704**	48 970
Taxation	**15**	**–**	(5 044)	**(6 793)**	(15 091)
Income/(Loss)after taxation		**(1 192)**	17 528	**36 911**	33 879
Minority interests		**–**	–	**(29 013)**	(25 817)
Income/(Loss) from ordinary activities		**(1 192)**	17 528	**7 898**	8 062
Prior year adjustment	**17**	**13 582**	1 751	**13 582**	1 751
Net income at beginning of year		**32 294**	13 015	**86 848**	77 035
Net income at end of year		**44 684**	32 294	**108 328**	86 848

BALANCE SHEET

at 31 March 2007

		Corporation		Group	
	Notes	**2007 M'000**	2006 M'000	**2007 M'000**	2006 M'000
ASSETS					
Non-current assets					
Property, plant and equipment	**4**	**417 673**	403 257	**489 252**	482 905
Intangible asset		**–**	–	**491**	257
Investment in subsidiaries	**5**	**2 040**	11 725	**–**	–
Investment in associates	**6**	**564**	564	**30 903**	28 390
Other investments	**7**	**18 635**	17 012	**18 635**	17 012
Loan debtors	**8**	**539**	641	**539**	641
		439 451	433 199	**539 820**	529 205
Current assets					
Inventories	**9**	**–**	–	**28 312**	29 652
Accounts receivable	**10**	**5 996**	18 114	**20 303**	30 023
Short term investments		**19 255**	25 264	**19 255**	25 264
Bank balances and cash		**17 247**	950	**34 467**	3 540
		42 498	44 328	**102 337**	88 479
Total assets		**481 949**	477 527	**642 157**	617 684
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	**128 000**	128 000	**128 000**	128 000
Non-distributable reserves	**2**	**159 667**	167 501	**160 992**	168 899
Retained income		**44 684**	32 294	**108 328**	86 848
		332 351	327 795	**397 320**	383 747
Minority interest		**–**	–	**33 489**	33 774
Total equity		**332 351**	327 795	**430 809**	417 521
Non-current liabilities					
Long-term borrowings	**3.1**	**114 856**	116 677	**114 856**	116 677
Long-term provisions	**3.2**	**3 366**	3 498	**3 366**	3 498
Deferred tax		**–**	–	**198**	1 272
Total non-current liabilities		**118 222**	120 175	**118 420**	121 447
Current liabilities					
Bank overdrafts		**–**	–	**544**	3 828
Accounts payable		**31 376**	29 557	**90 822**	73 117
Taxation		**–**	–	**1 562**	1 771
Total current liabilities		**31 376**	29 557	**92 928**	78 716
Total liabilities		**149 598**	149 732	**211 348**	200 163
Total equity and liabilities		**481 949**	477 527	**642 157**	617 684

CASH FLOW STATEMENT

for the year ended 31 March 2007

		Corporation		Group	
	Note	**2007 M'000**	2006 M'000	**2007 M'000**	2006 M'000
Net cash flow from operations	**16.1**	**31 427**	31 521	**97 968**	71 113
Returns on investments	**16.2**	**(4 889)**	(7 676)	**(3 794)**	(6 478)
Capital expenditure	**16.3**	**(22 460)**	(5 590)	**(25 124)**	(19 963)
Dividends paid		**–**	–	**(29 298)**	(32 969)
Taxation paid		**–**	–	**(8 076)**	(16 086)
Management of liquid resources	**16.4**	**8 163**	2 545	**(1 521)**	9 291
Financing	**16.5**	**(1 953)**	(12 714)	**(1 953)**	(12 712)
Increase in cash in year		**10 288**	8 086	**28 202**	(7 804)
Cash at beginning of year		**26 214**	18 128	**24 976**	32 780
Cash at end of year	**16.6**	**36 502**	26 214	**53 178**	24 976

	Corporation		Group	
	2007 **M'000**	2006 M'000	**2007** **M'000**	2006 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	**20 126**	19 800	**20 126**	19 800
Received during the year	**–**	1 051	**–**	1 051
Transferred to income statement	**(7 838)**	(725)	**(7 838)**	(725)
At end of year	**12 288**	20 126	**12 288**	20 126
Capital grants				
At beginning of year	**–**	–	**185**	–
Adjustment during the year	**–**	–	**(73)**	185
At end of year	**–**	–	**112**	185
Total development grants	**12 288**	20 126	**12 400**	20 311

		Corporation		Group	
		2007	2006	**2007**	2006
		M'000	M'000	**M'000**	M'000
2.	**NON-DISTRIBUTABLE RESERVES (continued)**				
2.2	**Unrealised surplus**				
	Surplus on revaluation of land and buildings				
	At beginning of year	**143 047**	143 047	**143 047**	143 047
	Movement during the year	**2**	–	**2**	–
	At end of year	**143 049**	143 047	**143 049**	143 047
2.3	**Unrealised surplus**				
	Arising on the acquisition of subsidiaries				
	At beginning of year	**–**	–	**–**	–
	Movement during the year	**–**	–	**413**	413
	At end of year	**–**	–	**413**	413
2.4	**Attributable share in Associated Companies**				
	Share premium	**–**	–	**400**	400
	Capitalisation of accumulated profits	**330**	328	**330**	328
	Capital redemption fund	**–**	–	**400**	400
		330	328	**1 130**	1 128
2.5	**Capital Redemption**				
	Capitalised revenue reserve to finance redemption of preference shares	**4 000**	4 000	**4 000**	4 000
		159 667	167 501	**160 992**	168 899
3.	**LONG-TERM LOANS**				
	Loans outstanding as detailed below:	**124 274**	127 799	**124 274**	127 799
	Less: Current maturities included in accounts payable	**(9 418)**	(11 122)	**(9 418)**	(11 122)
		114 856	116 677	**114 856**	116 677

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Group 2007 M'000	Group 2006 M'000
3. LONG-TERM LOANS (continued)		
3.1 Corporation		
Government of Lesotho:		
2% loan repayable in twenty yearly instalments commencing 2008	**1 170**	–
European Investment Bank Global Loan I		
4% and 8% loans repayable in eight years commencing 1 March 1991	**222**	228
European Investment Bank (Industrial Estate)		
5% loan of ECU 1.4 million repayment schedule Not yet agreed	**8 315**	8 594
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	**11 342**	12 182
KFW (OLD)		
3/4% loan repayable over fifteen years after a five year grace period from a date to be determined	**707**	751
ODA 1		
8% loan repayable in fifty half yearly instalments commencing 1 June 1988	**60**	76
ADB		
4% loan repayable in twenty yearly instalments commencing 1 July 2000	**21 778**	21 778
ODA II		
8% loan. Repayable over 25 years commencing 1 July 1991	**183**	201
Carried forward	**43 783**	43 816

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Group	
		2007 **M'000**	2006 M'000
3.	**LONG-TERM LOANS AND PROVISIONS (continued)**		
3.1	**Corporation (continued)**		
	Brought forward	**43 783**	43 816
	ODA III		
	8% loan. Repayable over 25 years commencing 1 July 1991	**242**	263
	ODA 1st line of credit		
	7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	**1 487**	1 487
	KFW (HA NYENYE)		
	5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	**2 996**	3 994
	ODA 2nd line of credit		
	7% loan, ODA line of credit. Repayable over 25 years commencing 26 September 1996	**3 476**	3 822
	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**	3 295
	European Investment Bank C		
	1% loan from EIB to GOL On-lent to LNDC repayable in ten equal annual instalments	**613**	594
	Development Bank of Southern Africa		
	12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	**–**	499
	GOL – LNDC Centre		
	5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	**5 600**	6 300
	Nedbank Lesotho		
	Interest is charged at prime minus 4% repayable in 10 years starting from 11 November, 2003 after 12 months moratorium	**6 963**	7 888
	GOL - Basotho Cannery	**2 941**	2 963
	Total Corporation loans	**124 274**	127 799
3.2	**Long Term Provisions**		
	Severance pay made in accordance with Section 79 of the Labour Code Order 1992	**3 366**	3 498

	Corporation		Group	
	2007 M'000	2006 M'000	**2007 M'000**	2006 M'000
4. PROPERTY, PLANT AND EQUIPMENT				
4.1 Cost or valuation				
Land and buildings	**448 389**	426 663	**478 682**	456 955
Plant, vehicles, furniture and equipment	**9 179**	8 721	**154 952**	152 680
	457 568	435 384	**633 634**	609 635
Accumulated depreciation				
Buildings	**32 908**	25 491	**55 169**	46 338
Plant, vehicles, furniture and equipment	**6 987**	6 636	**89 213**	80 392
	39 895	32 127	**144 382**	126 730
Net book value	**417 673**	403 257	**489 252**	482 905

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 2007 %**	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	**Net interest 2007 M'000**	Net interest 2006 M'000
5. INTEREST IN SUBSIDIARIES							
5.1 Active subsidiaries							
Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	**100**	100	10 040	(10 140)	–	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	22 250	(30 282)	–	–
			10 172	32 290	(40 422)	2 040	11 725

	2007 M'000	2006 M'000
5.2 Provision for losses in subsidiaries:		
Balance at beginning of year	**16 506**	16 506
Increase in provision	**23 916**	–
	40 422	16 506

	Corporation		**Group**	
	2007 M'000	2006 M'000	**2007 M'000**	2006 M'000
6. INTEREST IN ASSOCIATED COMPANIES				
6.1 Summary				
Shares at cost	**564**	564	**236**	236
Share of non-distributable reserves	**–**	–	**1 128**	1 128
Share of retained income	**–**	–	**29 539**	27 026
	564	564	**30 903**	28 390
Directors' valuation			**30 903**	28 390

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	

NOTES

1. All shares of M1 each, fully paid
2. Year ended 31 March unless otherwise stated
3. Based on audited financial statements

6. INTEREST IN ASSOCIATED COMPANIES (continued)

Cost of equity M'000	Non-distributable reserves M'000	Distributable reserves 31.03.07 M'000	Total interest M'000	Note	Total interest 31.03.06 M'000
20	400	3 205	3 625	3	3 175
66	–	10 697	10 763	3	12 195
150	400	9 849	10 399	3	8 412
–	328	5 788	6 116	3	4 608
236	1 128	29 539	30 903		28 390

	2007 M'000	2006 M'000
7. OTHER INVESTMENTS		
Unlisted equity shares:		
Lesotho Housing and Land Development Corporation	**958**	958
Frasers	**14**	14
Lesotho Pharmaceutical Corporation (LPC)	**–**	496
Zero coupon loan stock (RSA Govt. Bond) Corporation	**17 663**	15 544
	18 635	17 012
8. LONG-TERM DEBTORS		
CORPORATION AND GROUP		
Loan debtors at varying rates of interest and repayment terms	**539**	641
	539	641
9. INVENTORIES		
GROUP		
Raw materials	**6 162**	6 723
Finished goods and merchandise	**17 464**	18 641
Consumable stores	**3 330**	3 304
Work in progress	**1 356**	984
Total stocks	**28 312**	29 652

	Corporation		Group	
	2007 M'000	2006 M'000	2007 M'000	2006 M'000
10. ACCOUNTS RECEIVABLE				
VAT	**2 271**	2 880	**2 271**	2 880
Realised foreign exchange losses due from Government of Lesotho	**190**	190	**190**	190
Building rental	**8764**	6 104	**8 764**	6 104
Provision and other debtors	**(5 229)**	8 940	**9 078**	20 849
	5 996	18 114	**20 303**	30 023

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2007	2006	**2007**	2006
	M'000	M'000	**M'000**	M'000

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	
	2007	2006	**2007**	2006
	M'000	M'000	**M'000**	M'000
(a) Corporation				
Subsidiaries	**800**	610	**800**	–
Associates	**610**	610	–	–
Third parties	–	–	–	–
	1 410	1 410	**800**	800
(b) Group				
Associates	–	610	–	–
Third parties	–	–	–	–
	–	610	–	800

12. COMMITMENTS

Capital commitments contracted for:				
– Buildings and equipment	25 395	–	–	–
Authorised but not committed:				
– Buildings and equipment	–	–	**24 553**	13 702
	–	–	**24 553**	13 702
Total capital commitments	**25 395**	–	**24 553**	13 702

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	
		2007 M'000	2006 M'000	**2007 M'000**	2006 M'000
14.	**OPERATING PROFIT FOR THE YEAR**				
	Stated after crediting or charging the following:				
	Income				
	Profit on disposal of fixed assets	**152**	–	**152**	–
	Interest	**6 999**	4 065	**8 094**	5 263
	Rents	**32 201**	32 922	**32 201**	32 922
	Income from subsidiaries – dividends	**30 652**	34 315	**–**	–
	Expenses				
	Depreciation and amortisation of fixed assets	**8 200**	3 658	**18 695**	18 751
	Auditors remuneration: Audit fees	**141**	146	**301**	306
	Interest	**11 888**	11 741	**11 888**	11 741
15.	**TAXATION**				
15.1	Normal tax on current profits	**–**	5 044	**7 867**	15 205
	Deferred tax	**–**	–	**(1 074)**	(114)
		–	5 044	**6 793**	15 091

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

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation 2007 M'000	Corporation 2006 M'000	Group 2007 M'000	Group 2006 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	**(1 192)**	22 572	**37 055**	42 781
	Return on investment	**4 889**	7 676	**3 794**	6 478
	Depreciation	**8 200**	3 658	**18 695**	18 751
	Profit on sale of fixed assets	**(152)**	–	**(152)**	–
	Amortisation of grants	**–**	(725)	**(69)**	(725)
	Associates income	**–**	–	**4 136**	4 682
	Prior year adjustment	**13 582**	1 751	**13 582**	1 751
	Grants received	**(7 838)**	1 051	**(7 838)**	1 649
	(Decrease)/Increase in stock	**–**	–	**1 340**	(4 411)
	Decrease/(Increase) in debtors	**16 291**	(9 926)	**9 720**	(7 808)
	Increase/(Decrease) in creditors	**(2 353)**	5 464	**17 705**	7 965
	Net cash inflow from operating activities	**31 427**	31 521	**97 968**	71 113
16.2	**Returns on investments**				
	Interest received	**6 999**	4 065	**8 094**	5 263
	Interest paid	**(11 888)**	(11 741)	**(11 888)**	(11 741)
		(4 889)	(7 676)	**(3 794)**	(6 478)

		Corporation		Group	
		2007	2006	**2007**	2006
		M'000	M'000	**M'000**	M'000
16.	**NOTES TO THE CASH FLOW STATEMENT (continued)**				
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(22 651)**	(5 931)	**(25 318)**	(20 304)
	Receipts from sale of fixed assets	**191**	341	**194**	341
		(22 460)	(5 590)	**(25 124)**	(19 963)
16.4	**Management of liquid resources**				
	Decrease in amounts owing by associates	**–**	(329)	**–**	–
	Decrease in amounts owing by subsidiaries	**9 685**	–	**–**	–
	Increase in loan debtors	**102**	4 739	**102**	4 739
	Increase in other investments	**(1 624)**	(1 865)	**(1 623)**	4 552
		8 163	2 545	**(1 521)**	9 291
16.5	**Financing**				
	Increase/(Decrease) in long term borrowings	**(1 953)**	(13 175)	**(1 821)**	(13 175)
	Increase/(Decrease) in long term provisions	**–**	461	**(132)**	463
		(1 953)	(12 714)	**(1 953)**	(12 712)
16.6	**Analysis of cash at end of year**				
	Bank balances and cash	**17 247**	950	**34 467**	3 540
	Bank overdraft	**–**	–	**(544)**	(3 828)
	Short term investments	**19 255**	25 264	**19 255**	25 264
		36 502	26 214	**53 178**	24 976
17.	**PRIOR YEAR ADJUSTMENT**				
	Loti Brick loan interest	**12 162**	–	**12 162**	–
	Loti Brick provision	**–**	1 751	**–**	1 751
	Rental debtors	**1 828**	–	**1 828**	–
	Corporate tax	**1 495**	–	**1 495**	–
	JHI cash in transit	**(1 903)**	–	**(1 903)**	–
		13 582	1 751	**13 582**	1 751

LNDC

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