LNDC

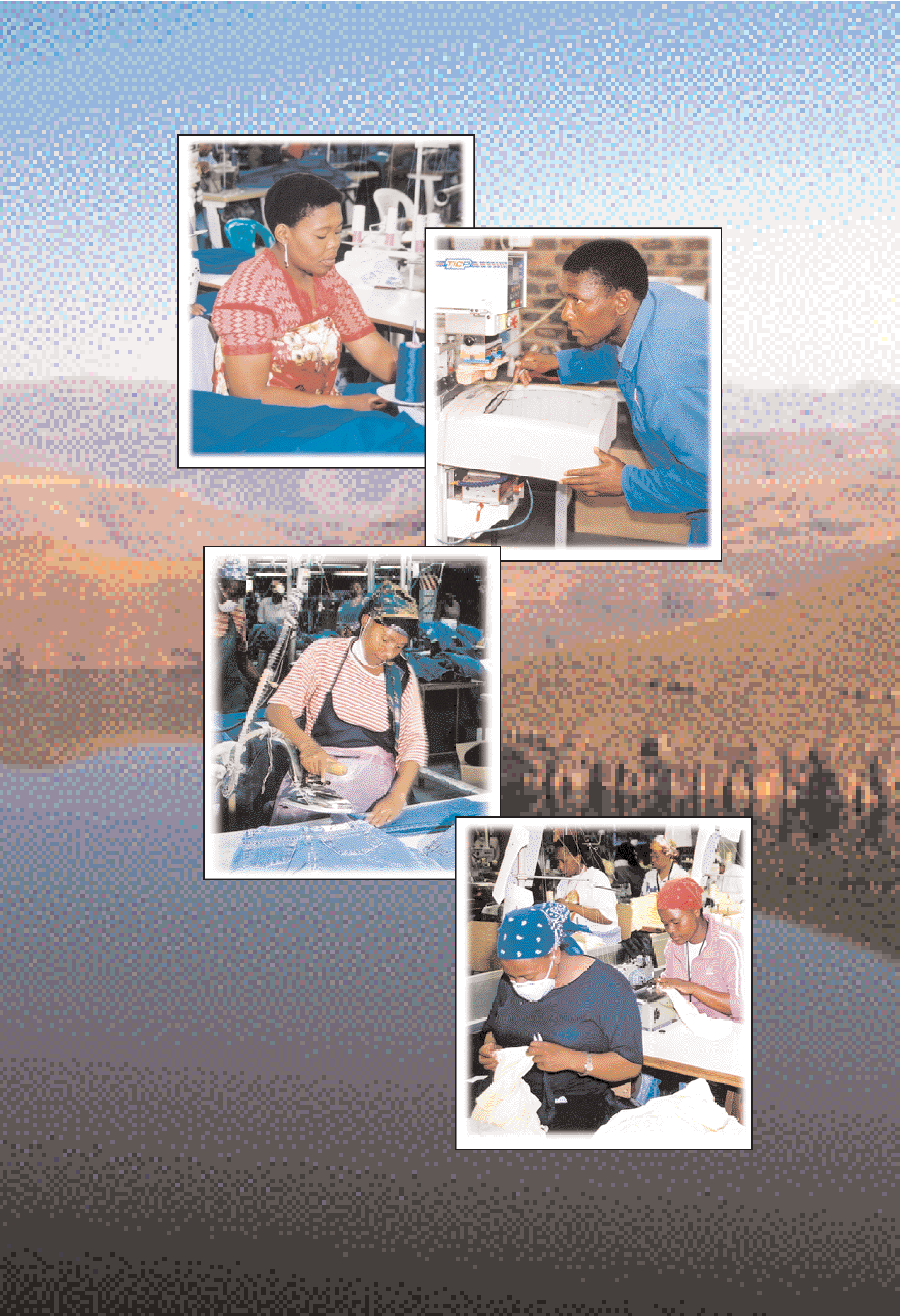
LESOTHO NATIONAL DEVELOPMENT CORPORATION

We Build Industry




ANNUAL REPORT 2001/2002

WITH COMPLIMENTS OF THE BOARD OF DIRECTORS, MANAGEMENT AND STAFF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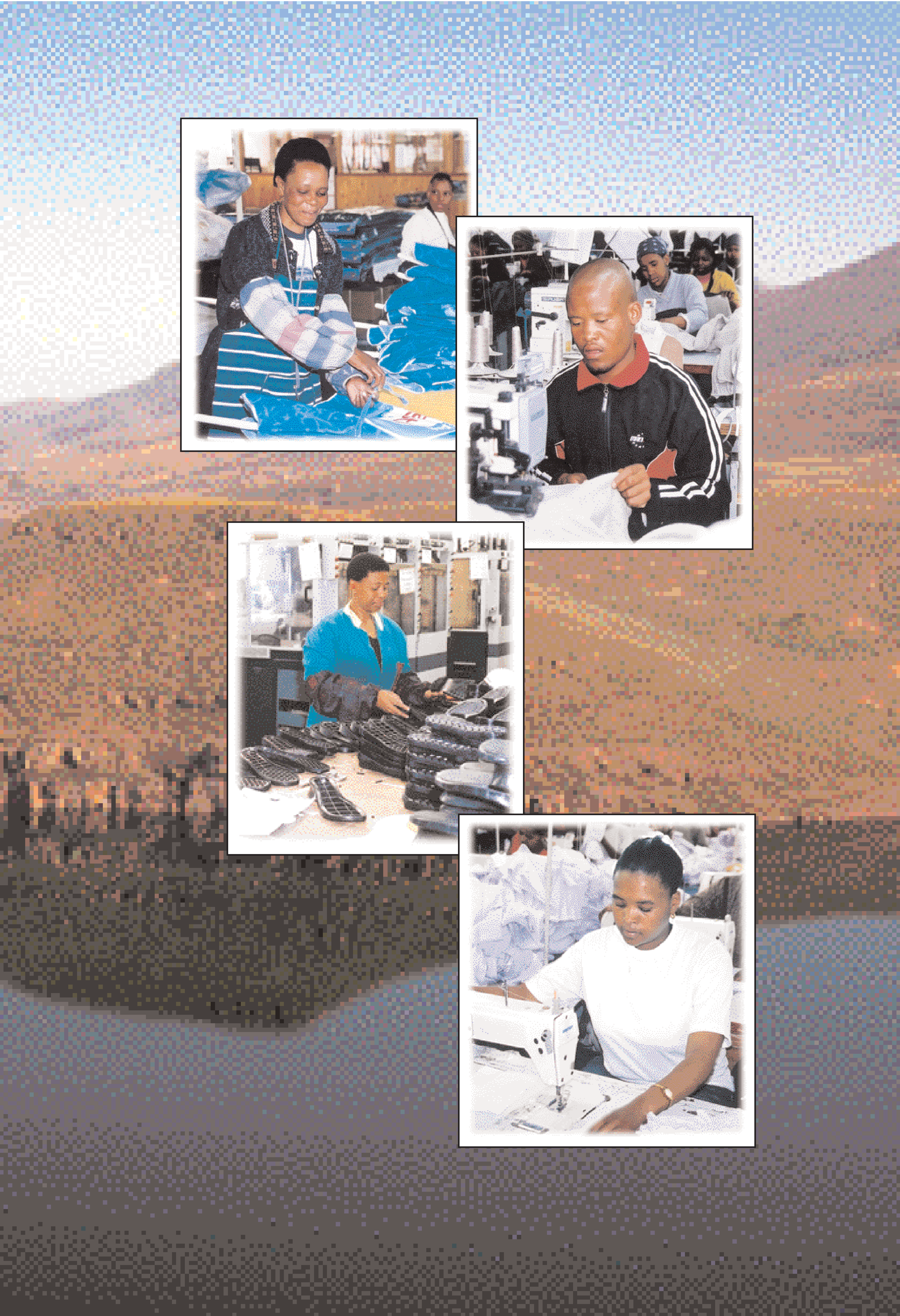

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CORPORATE PROFILE

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

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

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

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

Order No. 13 of 1990 provides for the Corporation's ownership to be opened up to 40% for other investors, while GOL retains 60%. To facilitate further equity capital injection, the LNDC Board resolved in 1990, that authorised share capital be further increased by M35 million to M55 million. During 1994/95, the GOL negotiated a financing arrangement from the European Investment Bank, which included ECU 0,75 million (then equivalent to M3 million) to be used for the subscription of additional shares by Government into LNDC. DEG converted some of its loans into shares in order to maintain the M4 million Maloti share holding. Following this subscription of additional shares by both GOL and DEG, paid up share capital increased form M20 milllion to M40 million, comprising M36 million ordinary shares and M4 million preference shares.

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

Section 19 (1) of the LNDC Order requires the Corporation to submit a report on the status of its affairs at the end of every financial year. It is inter alia, in accordance with these statutory requirements, that the LNDC presents this edition of its annual report for the financial year starting 1 April, 2001 and ending 31 March, 2002. 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 of Directors. The Group Financial Statements constitute a consolidated performance by the Corporation, its subsidiary and associate companies. The LNDC’s stake in subsidiary companies ranges between 51% and 100%, and between 20% and 50% in associate companies.

CORPORATE VISION

The Corporation's long-term vision is directly derived from the dynamics of the Lesotho economy and the country's future needs. One of the key features of the dynamics is the increasing dominance of the industrial sector in terms of contribution to GDP, employment creation and phenomenal growth in export volumes and earnings; a situation that is expected to prevail for quite some time in the future. With the industrial sector thus poised to be the economy's growth engine, LNDC's long term vision is to see:

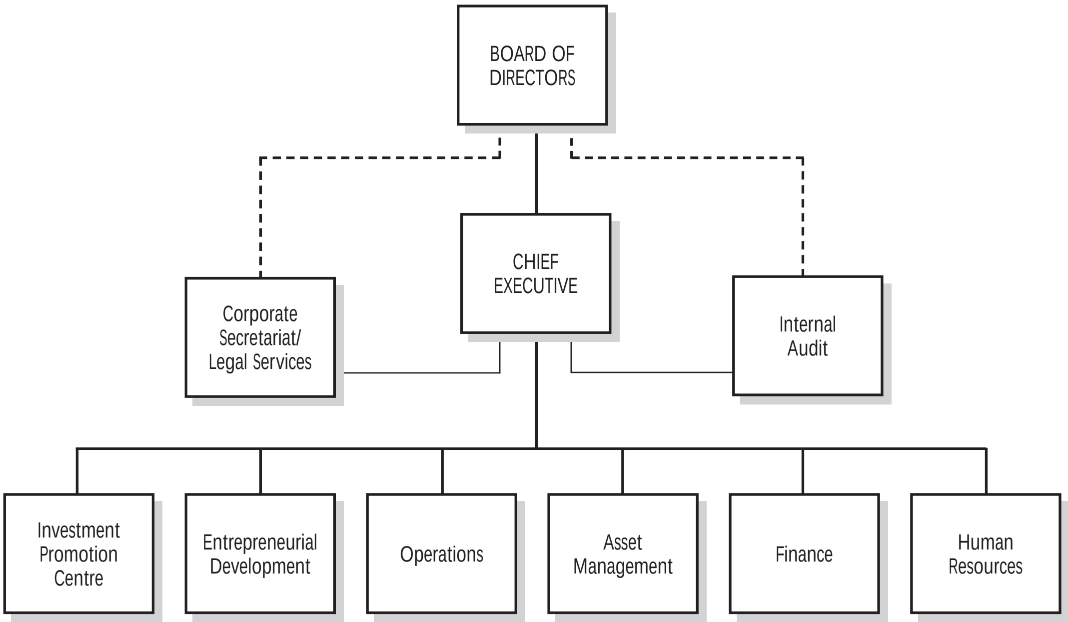
- A thriving and profitable manufacturing and processing industry, as well as general commercial activities which maintain a leading role in the economic development of Lesotho and which generate mass employment for the Basotho.
- The indigenous business community playing an active role in the industrial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

The expected results of this vision include:

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

LNDC ORGANISATIONAL STRUCTURE

end of the financial year 2001/2002



LNDC BOARD OF DIRECTORS

end of the financial year 2001/2002

CHAIRMAN

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

MEMBERS

Mrs L Tshabalala
Representative of the Ministry of Finance

Mrs M ’Mei
Representative of the Ministry of Development Planning

Mrs M Motselebane
Representative of the Ministry of Agriculture, Cooperatives and Land Reclamation

Mr K Mpasa
Representative of the Minstry of Tourism

Mr P Mokhezi
Representative of the Private Sector

Dr M Ramatlapeng
Representative of the Private Sector

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

Mrs A S Mokorosi
Representative of the Lesotho Manufacturers Association

Mr T Mochekele
Representative of the Lesotho Consumer Organisation

CHIEF EXECUTIVE

Mrs S M Mohapi
Lesotho National Development Corporation

CORPORATE SECRETARY

Mrs M Bosiu

Postal Address

Lesotho National Development Corporation
Private Bag A96
Maseru, 100
Lesotho

Head Office

Development House
Kingsway Road
Maseru, 100
Telephone: (09266) 22 312012
Telefax: (09266) 22 310038
E-mail: info@lndc.org.ls
Website: www.lndc.org.ls

AUDITORS

KPMG
PO Box 1252
Maseru, 100
Lesotho

BANKERS

Lesotho Bank (1999) Limited
PO Box 1053
Maseru, 100
Lesotho
Telephone: (09266) 22 315737

LNDC EXECUTIVE & MANAGEMENT TEAM

end of the financial year 2001/2002

EXECUTIVE TEAM

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

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

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

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

Mrs M Bosiu
BA Law, LLB
Head, Legal & Corporate Secretary

Mr M Shelile
BA Economics
Head, Entrepreneurial Development

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

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

Ms M Masupha
BA Economics
MA Development & Economic Planning
Head, IPC

MANAGEMENT TEAM

Mrs Felleng Makeka
Manager, Investment Promotion

Mrs Lesa Makhoalibe
Manager, Public Relations

Ms 'Majane Lesala
Senior Internal Auditor

Mrs 'Mampho Mahase
Senior Projects Manager

Mrs Nthabiseng Posholli
Senior Accountant

Ms Marina Maloi
Projects Manager

Ms Fumane Maema
Projects Manager

Mr Molupe Mohale
Projects Manager

Mr Justice Sello Ts'ukulu
Manager, Industrial Relations

Mr Litlhokoe Daniel Mohlomi
Information Technology Manager

Mr Motebang Mokoaleli
Manager, Research

Mr Clark Taelo Poopa
Senior Legal Officer

STATEMENT BY THE CHAIRMAN

Mohlomi Rantekoa
(Board Chairman) - LNDC

It is with great pleasure that I, on behalf of the LNDC Board of Directors, and indeed on my own behalf, have the honour as Chairman of the said Board, to present this annual report covering the Corporation's activities for the financial year ended 31 March 2002. The year under review marks my first term of office as Chairman of the Board. The year under review also ushered in the new Board of Directors operating under a new Board of Directors structure. These chances were introduced in order to assist the Corporation to match the challenges posed by the dynamics of the investment environment.

The mandate of the LNDC Board of Directors basically centres around provision of guidance on the policy issues and to a lesser extent, on operational framework surrounding the Corporation's day to day activities. Judging by the overall performance of the Corporation for the period under review, I am convinced that this mandate has been successfully implemented and executed by both the predecessors and the incoming Board. It is therefore only proper to recognise and acknowledge the individual and collective contributions of all the Board Members who settled quite early in the new environment, by taking a baton from their predecessors and keep running at full strength in a race where there is no finish line.

The LNDC restructuring process, initiated in 1998, was finally completed in the reporting period. Thus, the new LNDC organisation focusing on core business was finally implemented. This resulted in the adoption of the new organisational structure which would support the Corporation in carrying out its primary purpose, effectively. Certain positions which were a creation of the adopted structure had to be re-advertised in order to maintain a viable fit between the new job content and the incumbents. In an effort to minimise job losses as a result of this process, a decision was reached to advertise these positions internally in order to provide the current incumbents an opportunity to compete for these positions. Pursuant thereto, interviews were held in July 2001, and the appointments were effected in August, the same year. The appointment of a Real Estate Manager, an outsourced function was also effected in August 2001. This process took a longer period than initially anticipated due to a stringent process that was adopted in order to guarantee quality selection.

It is perhaps important to stress that organisational restructuring is not an easy exercise, especially when it leads to job losses. Notwithstanding the difficulties experienced by the Corporation during the restructuring period, one may emphasise, in this regard, that the whole process was well in tandem with the LNDC (Amendment) Act No. 7 of 2000, as well as contemporary practice of Good Corporate Governance which include, inter alia, focus on core business.

The Corporation was established to spearhead the industrial and commercial development agenda for Lesotho with job creation as a centrepiece for this development. Since inception, the Corporation's portfolio has grown in stature, both in size and quality. The year under review has not been an exception. The LNDC-assisted companies created additional 7 000 jobs in the reporting period, bringing aggregate employment created to approximately 37 000 Jobs. This growth impetus is to a large extent, attributable to Lesotho's certification under the United States – African Growth and Opportunity Act (AGOA). Lesotho was certified in April this year, making it the second qualifying country in the Southern African Customs Union (SACU), and the fifth in the Sub-Saharan Africa, out of thirty seven (37) eligible countries. This certification is a testimony to the Government of Lesotho's (GoL) commitment to Good Governance principles which embrace, amongst others: Democracy; Peace and Security; respect for Human Rights; and the respect for Intellectual Property Rights.

The AGOA initiative provides for duty free and quota free access into the US market for all AGOA eligible products produced in beneficiary countries up to the year 2008. Lesotho as a Least Developed country (LDC) also enjoys an additional window of opportunity, under which Lesotho based manufacturers can utilise 3rd country fabric for the first four years of this initiative up to the end of September, 2004. It is this dimension of AGOA which is providing Lesotho based manufacturers with a source of competitive advantage in a very demanding market which is characterised by fierce competition in which orders are won on price, quality and dependability. The AGOA initiative has undoubtedly provided fresh impetus in Lesotho's trade and investment arena.

The GoL's prudent trade regime under the auspices of the Southern African Custom Union (SACU), has yielded trade and investment benefits for Lesotho. The regime is a conscious approach in direct response to the limitations and opportunities posed by the country's socio-economic landscape. The regime's commitment to export development under the provisions of rebate item 470.03, and the free interchange of goods within SACU are just some of the examples of this prudence in action. The country's trade regime has also been shaped considerably by its membership to multilateral and regional trading regimes such as the World Trade Organisation (WTO) and the Southern African Development Community (SADC). This regime has made it possible for the LNDC to adopt a marketing strategy which is also cognisant of the country's socio economic landscape. The Corporation has been able to establish a niche in low cost market seeking investors that rely on low technology and skills. This strategy has produced outstanding results for the country. Lesotho has transformed into one of the major exporters of clothing and textile products into the US, under AGOA. This situation has yielded positive economic spin-offs for the country which include: job creation and income generation; growth of the transport sub-sector, and growth of housing sub-sectors. For the first time in its history, the LNDC has become the number one creator of jobs through its assisted projects, followed by the Government. The sectoral classification of products range from clothing and textile, accounting for the majority of the LNDC portfolio companies, followed by footwear, electronics, and other strategic sectors. The portfolio also includes equity component in which LNDC has a direct investment interest.

One of the evolutional changes that took place in the nineties, is that the Corporation's operational strategy was revised to de-emphasise equity involvement, reserving it for strategic intervention while focusing on sharpening the "facilitative" role. This route attracted support from the donor agencies like the World Bank which made resources available for establishment of the Investment Promotion Centre at LNDC during the early 1990's. The centre's mandate centres around marketing Lesotho as a desirable investment destination. Other cooperating partners like the African Development Bank (ADB), the former British Overseas Development Agency (ODA) (subsequently DFID), German KFW, DEG and European Investment Bank (EIB), have been highly instrumental to the successes achieved through the development programmes of assistance extended to the industrial sector, supporting the new facilitative approach adopted by the Corporation.

On the macro front, the Government of Lesotho is making concerted efforts in order to supplement the LNDC initiatives at facilitating investment attraction into Lesotho. The GoL remains committed to driving a policy framework that creates an enabling environment for the development of industries in Lesotho. Commitment to deepening the market driven nature of the economy remains unshaken as demonstrated by, inter alia, vigorous implementation of the privatisation programme, which is primarily aimed at state divestiture in business activities that could best be run by the private sector. The GoL

STATEMENT BY THE CHAIRMAN

(continued)

STATEMENT BY THE CHIEF EXECUTIVE

Sophia Mohapi
(Chief Executive) - LNDC

The period under review marked commendable achievements in the operational performance of the Corporation. The ensuing text provides an overview of the activities of the Corporation at the operational level, as they evolved in the reporting period.

The Corporation's portfolio of equity and assisted companies continued to register overall growth in terms of employment generation in what can be described as another vintage year in the history of the LNDC. This growth has also been registered in terms of rental and dividend income, which is the lifeblood for the Corporation's continued existence, very much in accordance with the provisions of the LNDC (Amendment) Act No.7 of 2000. Indications are that this trend will prevail in the foreseeable future, especially with the implementation of the new LNDC organisation structure in the outgoing year, characterized by intense focus on core business with emphasis on the prudent management of costs.

The Corporation's portfolio of equity companies in the reporting period consisted of two subsidiaries and seven associate companies during the financial year ending 31 March 2002. Subsidiary companies included: Lesotho Brewing and Loti Brick while the associates included: Cash Build Lesotho, Lesotho Housing, OK Bazaars Lesotho, Frasers, Sun International (Lesotho), Lesotho Pharmaceutical Corporation and Lesotho Milling.

The size of the equity portfolio decreased compared to the previous year, due to the exclusion of Smart Centre, a company which was liquidated during the course of the year. The aggregate sales and profits for the equity portfolio were registered at M441 million and M64 million respectively. While sales declined by 25%, profitability however increased by 32% compared to the previous year. This performance can be attributable to more efficient operations adopted by equity portfolio companies through stringent cost cutting measures.

The Corporation's success in investment attraction generally continues to center around market-seeking investors, who, for various reasons including origin countries' exclusion from preferential trading regime, are continuously seeking low cost production bases. In addition, the current upsurge in investment and employment, especially in the clothing and textile sector, has been the result of Lesotho's certification under the United States – Africa Growth and Opportunity Act (AGOA) in April 2001. The AGOA Act has further provided LNDC assisted projects with a comparative advantage over counterparts who have located operations, especially within the Southern African Customs Union (SACU). AGOA also provides for the usage of third country fabric as production inputs into products destined for the United States (US) market. The usage of third country fabric is a special window of opportunity extended only to Least Developed Countries (LDC). Lesotho is the only Least Developed Country within SACU.

The foregoing development has presented the Corporation with a window of opportunity for market seeking investors whose activities are reliant on third country fabric as manufacturing inputs. It is therefore not surprising that the outgoing year was further characterized by an increased tempo in investment enquiries, of which some were converted into tangible projects.

To reiterate, the outgoing year witnessed an upsurge in investment and job creation. This upsurge is attributable to the enhanced market opportunities as provided by the international trading landscape. New companies commenced operations to take advantage of the market opportunities while some existing companies expanded their operations in order to also take advantage of opportunities provided by the markets. The result has been 7 000 additional jobs, bringing total employment on all LNDC assisted companies to 37 000 jobs. This situation has made LNDC a number one job creator in the country followed by the Government of Lesotho (GoL).

The weak infrastructural development continues to act as an impediment to the industrialization process restraining the country in taking full advantage of the market opportunities presented by AGOA and other international markets. A testimony of this scenario is manifested in the slow conversion rate in the pipeline projects.

The challenge facing the Corporation is therefore the ability to influence the removal of the supply side constraints. The implementation of pipeline projects will translate into the growth of the industrial sector, resulting in more jobs and income for the nation. In anticipation of accelerated demand for industrial land and consistent with the GoL policy of decentralization, the Corporation acquired in the reporting period, a seven hectare land for industrial purposes in Mohale's Hoek. This acquisition was in addition to the earmarked developments at Butha Buthe, Mafeteng and Ha Tikoe in the Maseru district. Given that financing is an inhibitor in terms of servicing the newly acquired estates, all that the Corporation can do is hope that the development partners will reach out to the LNDC course. All this is aimed at achieving a noble objective of developing the country and the nation at large.

On a positive note, the existing LNDC property portfolio continues to be the Corporation's "golden goose" in terms of the portfolio contribution to the corporate asset base and income stream. LNDC property portfolio comprises, factory buildings, office blocks and residential units. Efforts are also underway to reconstruct LNDC Phase II and LNDC Mall in view of consolidating the Corporation's income base, which will provide for further financing and expansion of operations.

Perhaps the immediate challenge facing LNDC is to maintain and retain the current portfolio of business, while on the other hand expanding productive capacity for pipeline projects. Aggregate LNDC projects portfolio comprises fifty-one companies in total. The sectoral distribution comprises clothing and textile, shoe and leather, agro, commerce, electronics and to a lesser extent, tourism activities. Approximately 63% of the portfolio comprises projects in the clothing and textile sector. This sector accounts, in total, for 72% of all jobs created to-date.

Solid testimony to LNDC's successful investment attraction is very much reliant on the clothing and textile sector. This situation should be a cause for concern to the LNDC in the event of unfavourable eventuality occurring to the sector. As a result of this scenario, diversification of products and markets continues to remain a priority on the Corporation's planning boards. The Corporation is also increasingly aware of the need to consolidate gains in the garment sector, while on the other hand exploring other business opportunities with a strong success potential.

To conclude, LNDC continues to leave up to its mandate, its activities continue to be in tandem with its objectives, and LNDC's portfolio of business continues to grow from strength to strength as measured by growth in jobs and the strengthening income base. All these could not have been possible without, commitment and support from both Management and Staff. Their individual and collective effort is highly recognized and appreciated.

SMohapi

Sophia Mohapi

Chief Executive

REPORTS FROM THE DIRECTORATES

1. HUMAN RESOURCES DIVISION

(i) TRANSFORMATION OF LNDC

The organizational review, which the Corporation embarked on, resulted in a new organizational structure which supported the Corporation's focus on its core business. Some positions in the new structure warranted re-advertising because their job content had changed. A decision was then made to advertise these positions internally first in order to give affected staff members, the opportunity to compete for them. Interviews were therefore held in July 2001 and new appointments became effective from the first of August 2001.

The process of appointing the Real Estate Manager who was to take responsibility for management of the Corporation's property took longer than was expected. The selection process and the interviews were quite involved because it was imperative for Management to select a company which had good experience in property management. A company by the name of James Harry Issac (JHI) Real Estate Limited was then appointed for a contract period of five years effective from first of August 2001. The contract signed between the Corporation and JHI is performance-based.

(ii) STAFF DEVELOPMENT AND TRAINING

In the area of staff training, a total of twelve training opportunities were offered to staff members. These opportunities were in the form of short-term training and a study tour. Themes for short term training included Investment Promotion; Corporate Fraud Strategy; Corporate Governance; Legal Convention for In-House Counsel; Fraud Awareness; Corporate Law Update; Conciliation, Mediation and Arbitration of Disputes; Moving towards Strategic Communications; Customer Care; Information Technology Management; Investment Promotion through the Internet; Venture Capital and Private Equity. One staff member participated in a study tour organized by World Association of Investment Programme Agencies (WAIPA) at Uganda Investment Authority (UIA).

2. INVESTMENT PROMOTION CENTRE

(i) THE INVESTMENT CLIMATE

The year under review ushered in bright growth prospects for the Corporation. This scenario has been a function of Lesotho's certification under the Africa Growth and Opportunity Act (AGOA) in April 2001. In addition, Lesotho qualified under a special variation of this Act, which provides for the sourcing of fabric from 3rd countries as inputs into the production process for goods which are destined for the United States (US) market. This additional eligibility has been a result of Lesotho status as a Least Developed Country (LDC). The status quo shall remain in place until September 2004, thus giving Lesotho a competitive advantage as a destination for Foreign Direct Investment (FDI) inflows into the Southern African Customs Union (SACU).

AGOA is one of the market access opportunities for Lesotho made products extended by the US. It is alongside other market access opportunities offered by, inta alia, the European Union (EU) and SACU, within the confines of stated rules of origin.

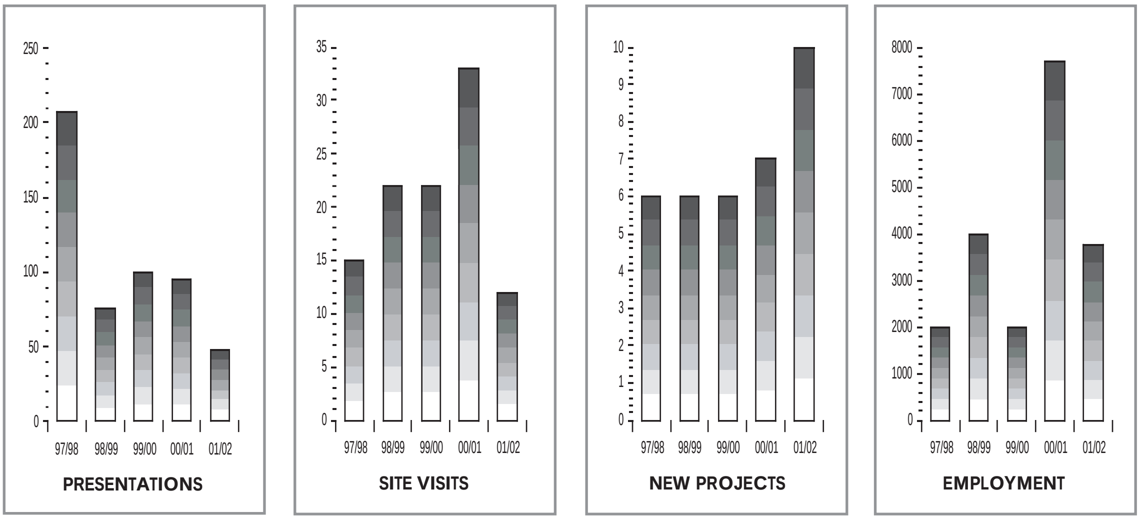
(ii) THE INVESTMENT PROMOTION PROGRAMME

(a) Promotional Activities

The Investment Promotion Centre promotional strategy focused on labour intensive sub-sectors in the reporting period. These included: clothing and textile; footwear and leather; as well as electronic and electrical assembly. This strategy continues to be appropriate in terms of attracting market seeking investors that are keen to enjoy preferential access into the international markets under various bilateral and multilateral trading arrangements to which Lesotho is a beneficiary.

The promotional programme continued to be concentrated in the Republic of South Africa (RSA). RSA is a country which remains untapped as a source of FDI inflows into Lesotho. This country also provides the Corporation with an opportunity to diversify its investment portfolio in terms of market coverage. The division executed fifty five (55) presentations in the period under review, played host to 16 site visits, and as such contributed to the generation of 8 new projects.

Investment Promotion Performance 1998 - 2002

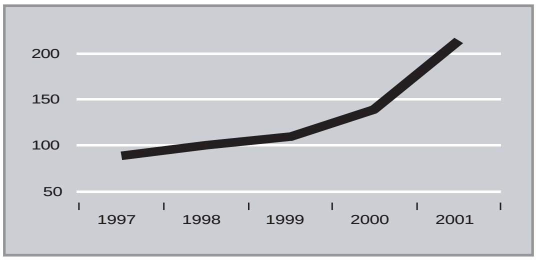


(b) Export Performance

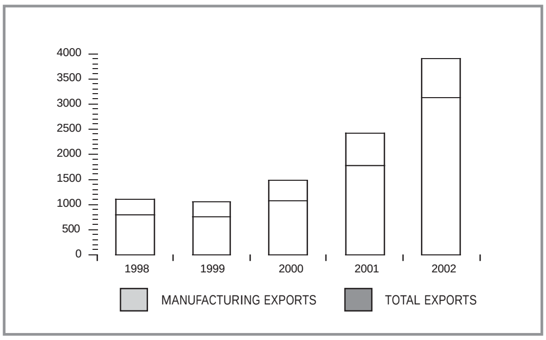
The certification of Lesotho under AGOA translated into a highly complimentary export performance, in the clothing and textile sub-sector. In the Calendar year 2001 alone, aggregate clothing and textiles imports into the US from Lesotho rose by US$75 million, from US$140 million in 2000 to US$215 million in 2001. This figure represents a 53% rise in clothing and textile exports to the US, a clear testimony of the appropriate policies which are complemented by prudent marketing strategies.

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

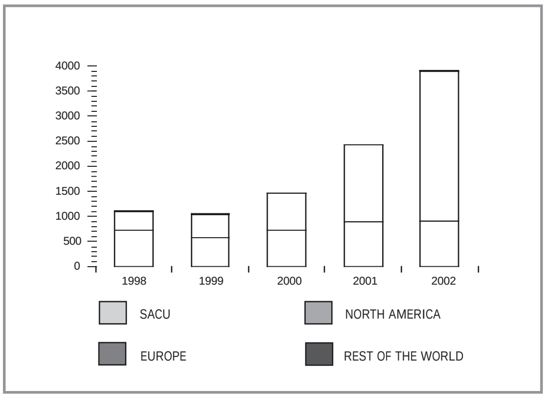
US imports of clothing and textile products from Lesotho for the calendar years 1997 – 2001 (million US$)



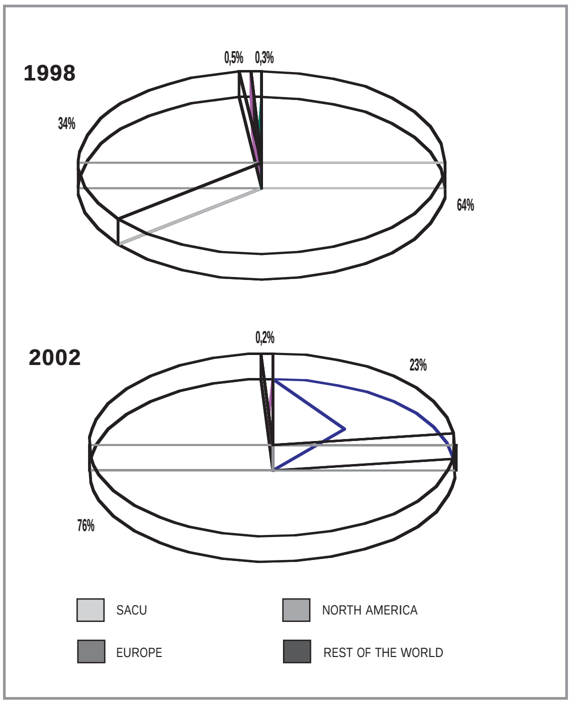
Export trend (million maloti)



Destination of exports (million maloti)



Destination of exports (in %)



(c) Pipeline Projects

The Corporation upheld a growing pipeline in the reporting period. As has been the case in exports performance, this situation can as well be attributable to the buoyant investment environment which also received a major boost from AGOA. The projects pipeline grew by 30% since Lesotho's certification under AGOA, to a total number of 18 prospective new and expansion projects. These projects are currently in various stages of negotiation. The pipeline reflects the predominance of clothing and textile projects which account for 76% of the total portfolio. Implementation of these pipeline projects will translate into M141 million in FDI with potential in generating 13 000 new jobs.

(d) Image Building Activities

The period under review marked another vintage year from the image-building dimension. Lesotho enjoyed wide and positive coverage in the media. Both local and regional media was utilised as an image-building tool. Ministerial interviews were also arranged with leading regional clothing and textile magazines in order to attain maximum exposure and impact in consolidating Lesotho's position as a destination of choice for investment.

(iii) CHALLENGES

The certification of Lesotho under AGOA has undoubtedly opened new market access opportunities. Lesotho has so far positioned itself well in taking advantage of these opportunities. A manifestation of this notion lies in the current results as measured by current growth in FDI, exports and employment. Notwithstanding, supply side constraints appear to inhibit ideal growth. As has been the case in the preceding year, the year under review has been characterised by a wide infrastructural development deficit. This is one priority area which needs to be addressed as a matter of urgency if the current growth trend is to be sustained and enhanced.

3. ENTREPRENEURIAL DEVELOPMENT DIVISION

(i) DIVISIONAL MANDATE

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

(ii) INTERVENTIONS

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

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

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

(iii) CHALLENGES

The division is faced with both external and internal challenges.

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

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

Internally, the division is faced with the following challenges:

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

4. OPERATIONS DIVISION

(i) INTRODUCTION

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

(ii) MONITORING

(a) Subsidiaries and associates companies

The portfolio stood at nine (9) companies broken down in two (2) subsidiaries and seven (7) associates with employment totalling 1 953. The portfolio decreased compared to the previous year due to the exclusion of Smart Centre, an LNDC associate company in the retail group. The company went into liquidation.

Structure of the Equity Portfolio

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

TABLE 1 **Structure of the Equity Portfolio as at 31 March 2002**

Subsidiaries	LNDC Shares	Jobs	Activity	Market
Lesotho Brewing Company	51%	494	Brewing	Domestic
Loti Brick	73%	154	Brick manufacturing	Domestic/Export
Lesotho Milling Company	20%	320	Milling	Domestic
Lesotho Pharmaceutical Corporation	20%	113	Pharmaceuticals	Domestic/Export
Cashbuild	20%	58	Wholesale	Domestic
Maseru Sun	20%	186	Hotel	Domestic
OK Bazaars	50%	122	Retail	Domestic

TABLE 2 **Other Invesments**

Subsidiaries	LNDC Shares	Jobs	Activity	Market
Lesotho Housing	15%	56	Housing	Domestic
Frasers	3%	450	Retail	Domestic

Summary of performance of the Equity Portfolio

The aggregate sales and profits of the portfolio were M441,355 million and M64,591 million respectively.

The sectoral performance shows Agro Sector being the best performer with 75% and 82% achieved in terms of sales and profits respectively. The rest of the sectors' sales and profits were 11% and 2%, 6% and 11% and 8% and 5% for building and construction, essential services and wholesale and retail respectively. (See Annexure 1).

(iii) APPRAISAL

(a) Leasehold companies

During the period under review, leasehold companies were 34 in number with employment totalling 31 050. The leasehold portfolio consists of the following sectors: Textile and clothing, shoes and leather, electronics, agro and plastic. The portfolio is dominated by apparel sector which accounts for 80% of the whole leasehold portfolio.

(b) Projects implemented

14 new projects were implemented during the period as indicated by table 3 below:

NAME	LOCATION	PRODUCT	EMPLOYMENT
N-River	Maseru	T-shirts	530
King Ang	Ha Nyenye	T-shirts	900
Export Unlimited	Maputsoe	T-shirts	348
E-River	Maseru	T-shirts	860
Chainex	Maseru	Embroidery	250
C-River	Maseru	T-shirts	500
Wonder Garments	Maseru	T-shirts	360
T W Garments	Ha Nyenye	T-shirts	1 807
San-ti-Kon	Thetsane	T-shirts	800
Raytex Garments	Maseru	T-shirts	657
Lesotho Cartons	Maseru	Carton paper and box	30
JW International	Ha Nyenye	Workwear	320
Humin Jeanswear	Ha Nyenye	Jeans	249
Five Eight	Maseru	T-shirts	260
Sub-Total			7 871

Two expansion projects were implemented during the period as follows:

NAME	LOCATION	PRODUCT	EMPLOYMENT
Lesotho Knitting	Thetsane	T-shirts	390
Global Garments	Thetsane	Jeans	2 000
Sub-Total			2 390
Grand Total			**10 261**

The total number of jobs created as a result of implementation of both new and expansion projects was 10 261.

ANNEXURE 1

Summary of annual performance report by sector as at 31 March 2002

			SALES				PRE-TAX PROFITS				
			YEAR TO DATE			PRIOR YEAR	YEAR TO DATE			PRIOR YEAR	
COMPANY/SECTOR	**LNDC SHARE HOLDING %**	**JOBS**	**BUDGET**	**ACTUAL**	**VARIANCE**	**ACTUAL**	**BUDGET**	**ACTUAL**	**VARIANCE**	**ACTUAL**	**NET PROFIT %**
AGRO											
LESOTHO MILLING	20	320	77 652	74 806	(2 846)	54 368	5 363	8 003	2 640	5 930	10,70%
LESOTHO BREWING	51	494	257 415	237 870	(19 545)	217 055	43 512	43 967	455	44 026	18,48%
L.P.C.	20	113	17 897	17 666	(231)	14 993	1 034	1 110	76	78 999	6,28%
TOTAL		927	352 964	330 342	(22 622)	286 416	49 909	53 080	3 171	128 955	
BUILDING/CONSTRUCTION											
LOTI BRICK	76	154	16 630	11 987	(4 643)	13 739	421 975	(720)	(422 695)	4 913	-6,01%
CASH BUILD	20	58	46 433	37 287	(9 146)	40 773	3 021	1 747	(1 274)	1 654	4,69%
TOTAL		212	63 063	49 274	(13 789)	54 512	424 996	1 027	(423 969)	6 567	
ESSENTIAL SERVICES											
MASERU SUN	20	186	23 833	25 061	1 228	21 734	5 471	6 984	1 513	5 014	27,87%
TOTAL		186	23 833	25 061	1 228	21 734	5 471	6 984	1 513	5 014	
WHOLESALE/RETAIL											
OK BAZAARS	50	122	33 291	36 678	3 387	41 400	2 554	3 500	946	5 249	9,54%
TOTAL		122	33 291	36 678	3 387	41 400	2 554	3 500	946	5 249	
GRAND TOTAL		1 447	473 151	441 355	(31 796)	404 062	482 930	64 591	(418 339)	145 785	

5. ASSET MANAGEMENT

(i) INTRODUCTION

The Division develops and manages the Lesotho National Development Corporation's (LNDC) property investments as well as monitoring the real estate manager against benchmarks.

(ii) PROPERTY PORTFOLIO

(a) Industrial Portfolio

The outgoing year is closing with an occupancy level of 92,35%, a decline of 7,65% over the same period in the Financial Year 2000/2001.

The Corporation constructed four factories during the outgoing year and the total industrial portfolio now stands at 123 units totally 143 475m^2.

(b) Commercial Portfolio

The demand for office space has been fair to poor during the reporting year and over 2 300m^2 rentable space is vacant at Kingsway Mall. There is an over supply of office space as Government departments who formed the bulk of LNDC's tenants have moved out into owner occupation.

The retail portfolio closed with an overall occupancy level of 90%, a decrease of 10% over the same period last year. The reasons for this kind of performance may be attributable to the opening of Sefika Shopping Centre which is situated very close to the bus stop.

The reconstruction of LNDC Centre Phase II with a gross lettable space of over 4 000m^2 comprising of office space and retail space has commenced and completion is expected in December 2002.

(c) Residential Portfolio

This is the sector that has enjoyed 100% occupancy because of good location.

(d) Acquisition of Land for Industrial Estate

In anticipation of an accelerated usage of serviced industrial land, coupled with the decentralisation policy of the Government, six hectares of land has been acquired in Mohale's Hoek for industrial development.

6. FINANCE DIVISION

(i) INTRODUCTION

For purposes of further interpretation of the financial statements for the year ended 31 March 2002, appearing in this report, some financial indicators falling under the classifications of profitability, utilisation, liquidity and solvency ratios, have hereunder been analysed:

(ii) RATIOS

	GROUP				CORPORATION			
	% INCREASE/ (DECREASE)	Increase/ (Decrease) M'000	2002 M'000	2001 M'000	%INCREASE/ (DECREASE) M'000	Increase/ (Decrease) M'000	2002 M'000	2001
Turnover/Operating income	3,0	7 009	237 870	230 861	20,2	1 597	9 496	7 899
Net income	8,6	2 361	29 754	27 393	46,1	4 933	5 636	10 703
Retained income	8,7	2 361	29 514	27 153	47,2	4 933	5 396	10 463
Total assets	4,2	14 783	369 682	354 889	7,2	20 111	297 775	277 664
Equity	6,5	14 474	238 700	224 226	13,5	19 936	167 467	147 531
Long-term liabilities	0,2	319	130 982	130 663	0,2	319	30 982	130 663
Return on capital employed	5,2	0,4%	8,1%	7,7%	35,9	1,4%	5,3%	3,9%
Debt equity ratio	5,8	3,4%	54,9%	58,3%	11,7	10,4%	78,2%	88,6%
Quick ratio	7,7	0,1	1,4	1,3	36,8	0,7	2,6	1,9
Current ratio	6,3	0,1	1,7	1,6	36,8	0,7	2,6	1,9
Earnings per share (Lisente)	9,3	7	82	75	48,3	14	43	29
Assets turnover ratio (Times)	(1,5)	(0,01)	0,64	0,65				

The general picture displayed by the above analysis is that there was growth in financial performance during the year ended 31 March 2002 and financial position as at then for both the Corporation and the Group. It is also noted that, whereas the Group did not utilise its assets adequately enough to generate income and sales in 2001, the trend further deteriorated in 2002, resulting in a decrease in its asset utilisation ratio.

The operating results of the Corporation show a much higher performance, both in terms of growth and other ratios, than the Group. There are many reasons why the Group's reporting does not compare well with the Corporation's: One is the negative impact as caused by the consolidated results of some bad performing members of the Group. However, the Corporation has since reviewed its investment strategy (which is further backed up by the Government of Lesotho's privatisation policy) and it is in the process of disinvesting from the bad performers. Another is the Corporation's change of policy (which happened more than a year ago) to amortise capital grants instead of capitalising them. It is to be noted, however, that shareholder's total return from the Group's viewpoint, in absolute figures, is higher than it is from the Corporation's point of view. Both the Group's and Corporation's profitability results came about as a result of a combination of many factors. Some of them become apparent from the discussion of other ratios in the paragraphs that follow.

An opposite situation to the above is observed when comparing the Corporation's and the Group's debt management ratios. Group's ratios compare better to those of the Corporation. Again, there are many reasons for that: However, the main one stems from the Corporation's own mandate in that, in order to facilitate industrialisation (especially through attraction of foreign investment in the processing/manufacturing sector), it engages in, amongst others, land acquisition and development of factory shells on either rental or sale basis. In fact, the Corporation has had to recently accelerate acquisition of land and development of factory shells to address needs of investors currently inflowing into the Country in large numbers as a result of export opportunities created by the Africa Growth and Opportunities Act (AGOA) that was passed by the United States Government more than two years ago. A higher percentage of this factory shells cost is mostly financed by foreign concessionary loans. In the same token, the Corporation acquires land for developing commercial rental property to facilitate other business sectors. This latter part is financed by commercial loans. The higher debt risk profile of the Corporation as compared with that of the Group as a whole is therefore attributable to the two loan categories described above. Both of them are primarily triggered by national economic needs than pure business motives. None of the other members of the Group is charged with the same task and as such, their loan portfolios are only driven by business decisions. The Corporation is, however, in the process of re-engineering and re-thinking ways and means of improving its debt management ratios. This is therefore expected to reflect in subsequent financial years.

The Corporation and the Group appear to have managed their liquidity well in the reporting year (though the Corporation's position is better than the Group's). Their current obligations could be serviced with considerable comfort.

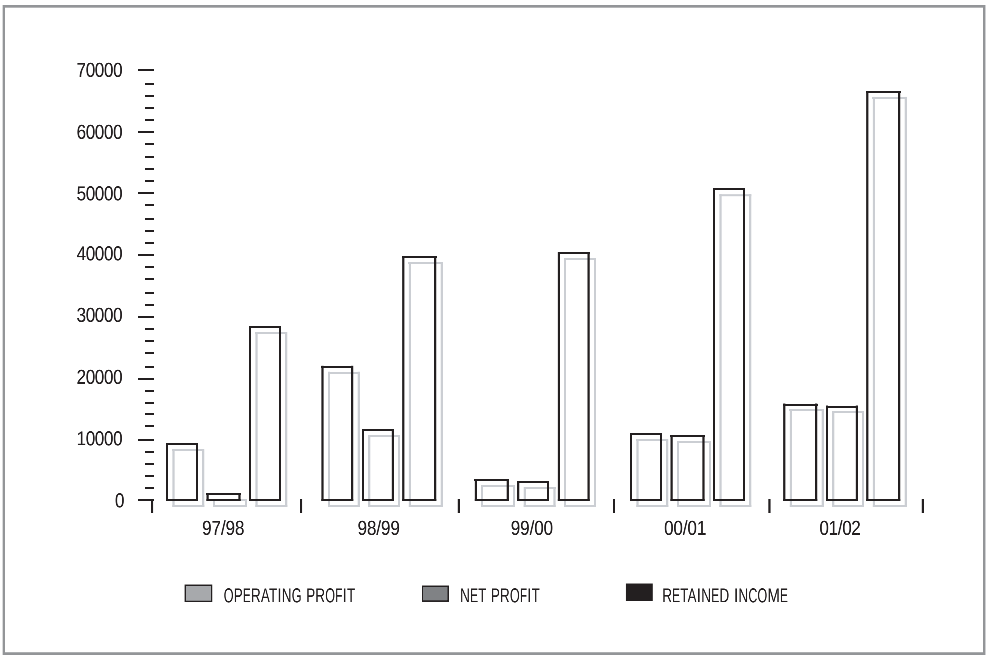
(iii) CONCLUSION

Whilst the above analysis is not exhaustive, it can be deduced from it that the low Group's return on capital employed and on equity ratios (as compared to the Corporation's) are attributable to its low profitability and asset turnover ratios. This status of affairs is, in turn, attributable to inefficient utilisation of assets to generate sufficient turnover volumes, low profit margins and/or inefficient control of costs by some members of the Group, all of which resulted in losses. However, as indicated above, the Corporation is in the process of disinvesting from unprofitable investments and diversifying its investment portfolio. These factors are expected to improve the overall Group's performance and position in subsequent financial years.

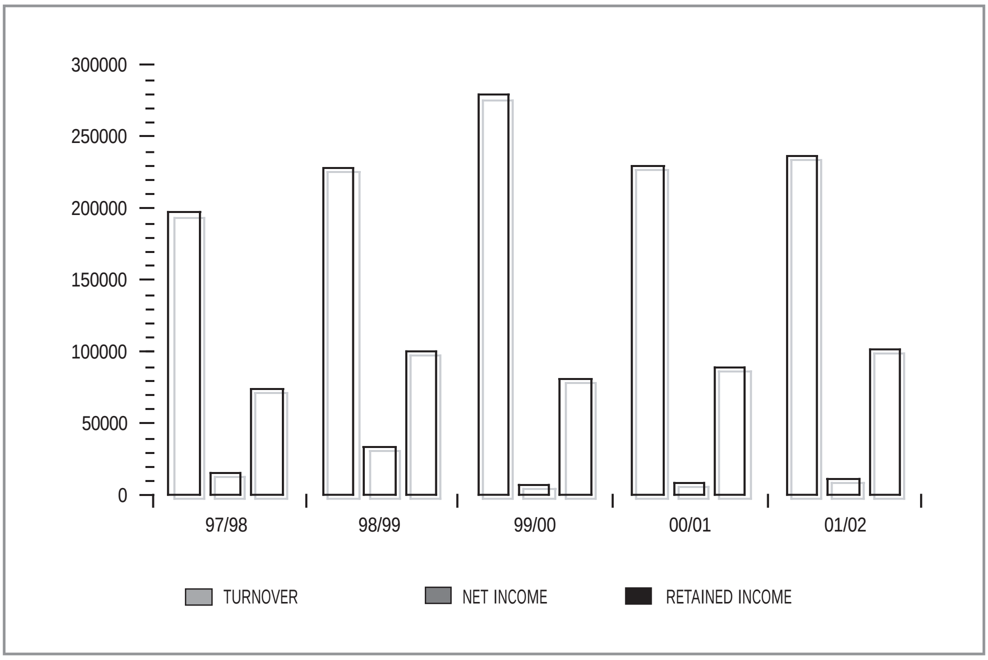
REPORTS FROM THE DIRECTORATES

(continued)

CORPORATION FINANCIAL PERFORMANCE (million maloti)



GROUP FINANCIAL PERFORMANCE (million maloti)



FINANCIAL STATEMENTS

for the year ended 31 March 2002

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Directors' Approval

The financial statements which appear on pages 25 to 44 were approved by the board of directors on 19 June 2003 and were signed on its behalf by:

DIRECTOR

DIRECTOR

Report of the Auditor General on the Financial Statements of Lesotho National Development Corporation and its Subsidiary Companies for the year ended 31 March 2002

PMB Chartered Accountants (formerly KPMG),under section 15 (1) of the Audit Act 1973 have audited the Accounts and Group Financial Statements of Lesotho National Development Corporation for the year ended 31 March 2002 in accordance with generally accepted auditing standards.

The directors of the Corporation are responsible for the financial statements. It is my responsibility to form an independent opinion on these statements based on the audit.

The Corporation has not revalued its land and buildings in line with its Policy stated in note 4.2 of the financial statements. However the revalued figures have not yet been incorporated in the financial statements for the year ended 31 March 2002, pending finilisation of the revaluation report.

HOLDING CORPORATION

Except for any adjustment which may be required in respect of the above, in my opinion these financial statements fairly present the financial position of the Corporation at 31 March 2002 and the results of their operations for the year then ended, in conformity with generally accepted accounting practice and in the manner required by the Lesotho National Development Order 1990.

Daisy C O Walters (Mrs)
Acting Auditor General

STATEMENT OF GROUP ACCOUNTING POLICIES

1. PRINCIPAL ACTIVITIES

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

2. GROUP ACCOUNTING POLICIES

These financial statements have been prepared on the historical cost basis, modified by the equity method of accounting for associated companies (Policy 2,3) and the revaluation of buildings (Note 4.2) and incorporate the following accounting policies:

2.1 Group Financial Statements

The group financial statements comprise the assets, liabilities and results of the Corporation, and those of its subsidiaries, which it is intended should continue as going concerns. Subsidiary companies are those in which the Corporation holds 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 statements are for a period ended more than six months prior to the Corporation's year end, the associated company's most recent unaudited results are used provided the Corporation is satisfied that they are reliable.

2.4 Investment

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

2.5 Method of Determining Stock Values

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

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

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

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

Subsidiary Companies

Realised exchange differences are dealt with in the income statement.

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

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:

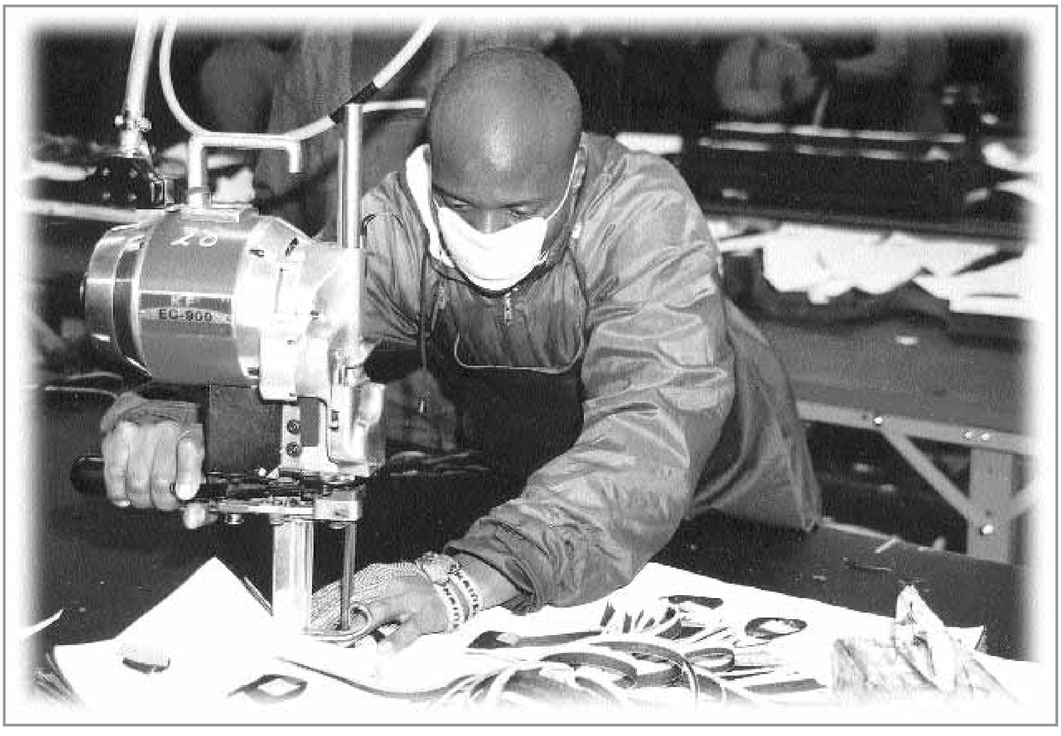
(a) Non repayable development grants received to assist the financing of development activities are credited directly to shareholders' funds in full.

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 2002

	Notes	Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
Turnover	13	**–**	–	**237 870**	230 861
Operating income	14	**9 496**	7 899	**34 445**	29 583
Income from associates		**6 140**	2 804	**2 037**	4 423
Income before taxation		**15 636**	10 703	**36 482**	34 006
Taxation	15	**–**	–	**(6 728)**	(6 613)
Income after taxation		**15 636**	10 703	**29 754**	27 393
Minority interests		**–**	–	**(18 247)**	(18 464)
		15 636	10 703	**11 507**	8 929
Preference shares dividend		**(240)**	(240)	**(240)**	(240)
Retained income for the year		**15 396**	10 463	**11 267**	8 689
At beginning of year		**50 824**	40 361	**89 989**	81 300
Prior year adjustment	16	**362**	–	**362**	–
At end of year		**66 582**	50 824	**101 618**	89 989

BALANCE SHEET

at 31 March 2002

		Corporation		Group	
	Notes	**2002 M'000**	2001 M'000	**2002 M'000**	2001 M'000
CAPITAL EMPLOYED					
Share capital	1	**40 000**	40 000	**40 000**	40 000
Non-distributable reserves	2	**60 885**	56 707	**63 671**	59 881
Retained income		**66 582**	50 824	**101 618**	89 989
Shareholders' funds		**167 467**	147 531	**205 289**	189 870
Outside shareholders' interest		**–**	–	**33 411**	34 356
Long-term loans	3	**130 308**	130 133	**130 308**	130 133
Deferred liabilities		**–**	–	**674**	530
		297 775	277 664	**369 682**	354 889
EMPLOYMENT OF CAPITAL					
Fixed assets	4	**212 212**	203 496	**278 582**	266 558
Interest in subsidiary companies	5	**23 506**	33 085	**–**	–
Interest in associated companies	6	**3 343**	3 906	**23 138**	27 944
Other investments	7	**10 221**	9 161	**10 221**	9 161
Loan debtors	8	**8 215**	3 553	**8 215**	3 553
		257 497	253 201	**320 156**	307 216
CURRENT ASSETS					
Stocks	9	**–**	–	**23 797**	26 635
Accounts receivable	10	**10 448**	12 073	**27 209**	32 944
Short term investments		**54 245**	22 876	**56 064**	24 696
Bank balances and cash		**1 386**	15 633	**14 507**	42 460
		66 079	50 582	**121 577**	126 735
CURRENT LIABILITIES					
Bank overdrafts		**–**	–	**173**	174
Accounts payable		**25 321**	25 879	**64 682**	70 011
Taxation		**–**	–	**6 716**	8 637
Preference dividend		**480**	240	**480**	240
		25 801	26 119	**72 051**	79 062
NET CURRENT ASSETS		**40 278**	24 463	**49 526**	47 673
		297 775	277 664	**369 682**	354 889

CASH FLOW STATEMENT

for the year ended 31 March 2002

		Corporation		Group	
	Note	**2002 M'000**	2001 M'000	**2002 M'000**	2001 M'000
Net cash flow from operations	16.1	**32 784**	35 950	**65 224**	72 276
Returns on investments	16.2	**(6 612)**	(9 582)	**(5 041)**	(8 494)
Capital expenditure	16.3	**(13 645)**	845	**(23 838)**	(4 859)
Dividends paids		**–**	(240)	**(18 130)**	(24 370)
Taxation paid		**–**	–	**(8 505)**	(3 240)
Management of liquid resources	16.4	**4 420**	(6 664)	**(6 469)**	(8 126)
Financing	16.5	**175**	(4 393)	**175**	(4 393)
Increase in cash in year		**17 122**	15 916	**3 416**	18 794
Cash at beginning of year		**38 509**	22 593	**66 982**	48 188
Cash at end of year	16.6	**55 631**	38 509	**70 398**	66 982

	Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
BALANCE SHEET				
1. SHARE CAPITAL				
Authorised				
55 000 000 shares of M1 each	**55 000**	55 000	**55 000**	55 000
Issued and fully paid				
36 000 000 shares of M1 each	**36 000**	36 000	**36 000**	36 000
4 000 000 6% cumulative non-voting preference shares of M1 each (refer note 16)	**4 000**	4 000	**4 000**	4 000
	40 000	40 000	**40 000**	40 000
2. NON-DISTRIBUTABLE RESERVES				
2.1 Development grants				
Grants from Lesotho Government:				
At beginning of year	**7 200**	5 523	**7 200**	5 523
Received during the year	**4 342**	4 000	**4 342**	4 000
Transferred to income statement	**(160)**	(2 323)	**(160)**	(2 323)
At end of year	**11 382**	7 200	**11 382**	7 200
Capital grants				
At beginning of year	**–**	–	**559**	653
Adjustment during the year	**–**	–	**–**	(94)
At end of year	**–**	–	**559**	559
Total development grants	**11 382**	7 200	**11 941**	7 759
2.2 Bonus shares				
Capitalisation of post acquisition profits earned by a subsidiary				
At beginning of year	**858**	858	**858**	858
At end of year	**858**	858	**858**	858

		Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
2.	**NON-DISTRIBUTABLE RESERVES (continued)**				
2.3	**Share premium**				
	Arising on issue of shares in subsidiary				
	At beginning of year	**–**	–	**373**	373
	Movement during the year	**–**	–	**(373)**	–
	At end of year	**–**	–	**–**	373
2.4	**Unrealised surplus**				
	Surplus on revaluation of land and buildings				
	At beginning of year	**48 649**	45 562	**48 649**	45 562
	Movement during the year	**(4)**	–	**408**	–
	Additions	**–**	3 087	**–**	3 087
	At end of year	**48 645**	48 649	**49 057**	48 649
	Arising on the acquisition of subsidiaries				
	At beginning of year	**–**	–	**582**	1 004
	Movement during the year	**–**	–	**(352)**	(422)
	At end of year	**–**	–	**230**	582
2.5	**Attributable share in Associated Companies**				
	Capital grant	**–**	–	**457**	532
	Share premium	**–**	–	**400**	400
	Capitalisation of accumulated profits	**–**	–	**328**	328
	Surplus on revaluation of equipment	**–**	–	**–**	–
	Capital redemption fund	**–**	–	**400**	400
		–	–	**1 585**	1 660
	Total non-distributable reserves	**60 885**	56 707	**63 671**	59 881
3.	**LONG-TERM LOANS**				
	Loans outstanding as detailed below:	**135 350**	136 505	**135 350**	136 505
	Less: Current maturities included in accounts payable	**(5 042)**	(6 372)	**(5 042)**	(6 372)
		130 308	130 133	**130 308**	130 133

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2002 M'000	2001 M'000
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)**	(5)
European Investment Bank Global Loan I		
4% and 8% loans repayable in eight years commencing 1 March 1991	**373**	609
European Investment Bank (Industrial Estate)		
5% loan of ECU 1,4 million repayment schedule not yet agreed	**14 234**	10 136
Frasers Limited:		
Interest free loan with no fixed date of repayment	**6**	6
DEG		
6% income notes repayable in frull on 30 December, 2009	**3 248**	3 248
Government of Lesotho:		
IDA		
7% loan repayable in twenty yearly instalments commencing 1 July 2000	**15 123**	15 963
IDA 985		
7% loan repayable in thirty half yearly instalments starting 30 June 1986	**193**	711
KFW (OLD)		
3/4% loan repayable over fifteen years after a five year grace period from a date to be determined	**883**	883
ODA 1		
8% loan repayable in fifty half yearly instalments commencing 1 June 1988	**166**	196
4% loan repayable in twenty yearly instalments commencing 1 July 2000	**7 740**	8 650
Carried forward	**41 952**	40 397

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2002 M'000	2001 M'000
3. LONG-TERM LOANS (continued)		
3.1 Corporation (continued)		
Brought forward	**41 952**	40 397
ODA II		
8% loan. Repayable over 25 years commencing 1 July 1991	**241**	256
ODA III		
8% loan. Repayable over 25 years commencing 1 July 1991	**342**	370
ODA 1st line of credit		
7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	**1 819**	2 826
KFW (HA NYENYE)		
5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	**7 988**	8 987
ODA 2nd line of credit		
7% loan, ODA line of credit. Repayable over 25 years commencing 26 September 1996	**4 523**	4 523
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	**8 092**	7 777
Development Bank of Southern Africa		
12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	**2 932**	3 369
GOL – LNDC Centre		
5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	**13 300**	13 300
Total Corporation loans	**134 067**	134 683
Severance pay provision	**1 283**	1 822
	135 350	136 505

NOTES TO THE FINANCIAL STATEMENTS

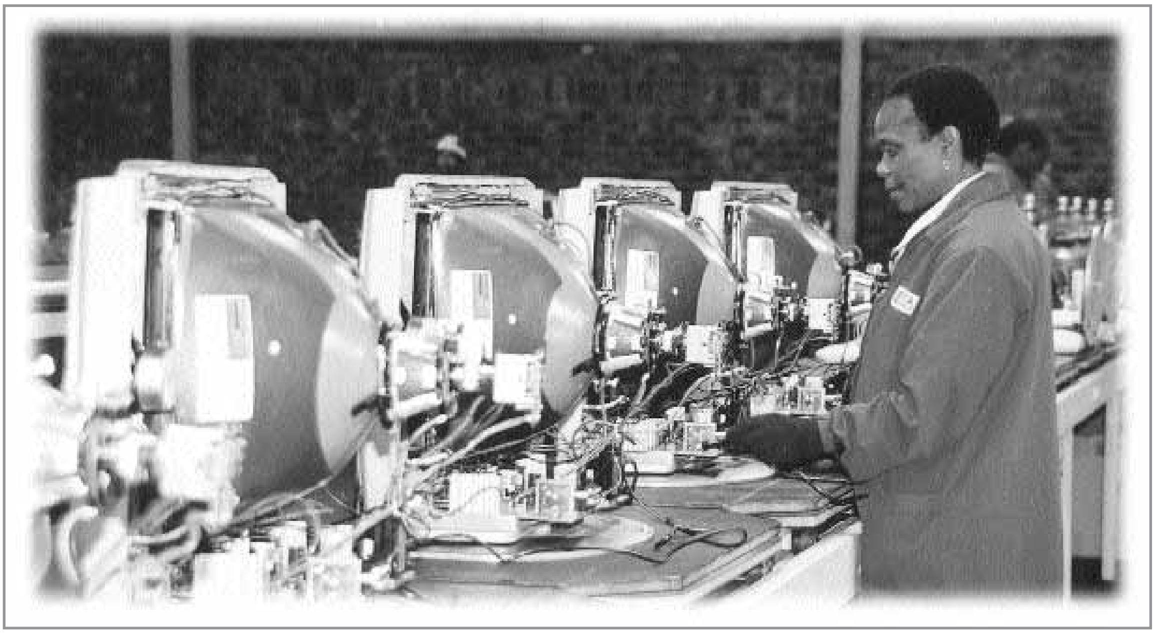
(continued)

	Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
4. FIXED ASSETS				
4.1 Cost or valuation				
Land and buildings	**236 330**	222 745	**268 962**	255 293
Plant, vehicles, furniture and equipment	**6 298**	6 729	**127 546**	119 342
	242 628	229 474	**396 508**	374 635
Accumulated depreciation				
Land and buildings	**26 277**	21 805	**41 866**	36 127
Plant, vehicles, furniture and equipment	**4 139**	4 173	**76 060**	71 950
	30 416	25 978	**117 926**	108 077
Net book value	**212 212**	203 496	**278 582**	266 558

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 1996.



Name	Principal activity	Equity held 2002 %	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	Net interest 2002 M'000	Net interest 2001 M'000
5. INTEREST IN SUBSIDIARIES							
5.1 Active subsidiaries							
Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	100	100	2 529	(539)	2 090	2 102
Lesotho Brewing Company (Pty) Ltd	Brewery	51	2 040	12 551	–	14 591	14 939
Loti Brick (Pty) Ltd	Brick making plant	73,6	8 032	8 474	(9 681)	6 825	6 825
Maluti Marketing	Investment company	–	–	–	–	–	251
			10 172	23 554	(10 220)	23 506	24 117
5.2 Investment in companies in liquidation and dormant companies							
Lesotho Investment Holdings Limited	Investment company	44,6 (Note 5.4)	–	–	–	–	190
General Ceramic Industries	Tile manufacture	100 (Note 5.5)	–	–	–	–	8 000
Lesotho Wool and Mohair Company	Wool processing	52	–	–	–	–	12
Maluti Oil and Cake Mills	Oil manufacture	100	–	–	–	–	766
			10 172	23 554	(10 220)	23 506	33 085

	2002 M'000	2001 M'000
5. INTEREST IN SUBSIDIARY COMPANIES (continued)		
5.3 Provision for losses in subsidiaries:		
Balance at beginning of year	**14 196**	18 196
Write-off during the year	**(3 976)**	–
Provision against grants	**–**	(4 000)
	10 220	14 196

5.4 Financial statements of subsidiary companies

The financial statements of the following subsidiary companies were not available.

Basotho Fruit & Vegetable Canners (Pty) Ltd	(2001 accounts consolidated)
Basotho Farm Produce (Pty) Ltd	(Not consolidated)
Pal Products (Pty) Ltd (Dormant)	(1996 accounts consolidated)
Loti Brick (Pty) Ltd	(2001 accounts consolidated)

	Corporation		Group	
	2002 M'000	2001 M'000	2002 M'000	2001 M'000
6. INTEREST IN ASSOCIATED COMPANIES				
Shares at cost	**1 014**	763	**1 014**	827
Share of non-distributable reserves	**–**	–	**1 585**	1 661
Share of retained income	**–**	–	**2 692**	6 794
Amounts owing	**17 847**	18 662	**17 847**	18 662
Provision for losses	**(15 518)**	(15 519)	**–**	–
	3 343	3 906	**23 138**	27 944
Directors' valuation			**23 138**	27 944

6. INTEREST IN ASSOCIATED COMPANIES (continued)

Name	Principal activity	Number of shares held Note 1	Proportion held %	Accounting period used Note 2
CORPORATION				
Cash Build Lesotho (Pty) Ltd	Wholesalers	20 000	50	30.06.02
Lesotho Food Industries (Pty) Ltd	Investment in LM Co	66 167	39,7	30.06.02
OK Bazaars Lesotho (Pty) Ltd	Retailers	150 000	50	30.06.02
Lesotho Holdings and Hotel Development (Pty) Ltd	Hotel business	1 200	30	30.06.98
Sun International Lesotho (Pty) Ltd	Hotel and casino	A 20/B 328 291	20	30.06.02
Lesotho Pharmaceutical Corporation	Drug manufacturer	526 000	21	31.03.02
Highland Ceramics (Pty) Ltd	Ceramics tiles	490	49	31.12.97
Smart Centre (Maluti) (1988) Ltd	Retailer	62	50	30.06.01
Frasers		3		–

* = Less than M500

Notes to this schedule continued overleaf

NOTES TO THE FINANCIAL STATEMENTS

(continued)

6. INTEREST IN ASSOCIATED COMPANIES (continued)

Cost of equity M'000	Non-distributable reserves M'000	Distributable reserves 31.03.02 M'000	Amounts owing M'000	Total interest M'000	Note	Total interest 31.03.01 M'000
20	400	1 816	80	2 316	3	2 109
67	–	12 308	75	12 450	3	11 746
150	400	4 110	(174)	4 486	3	7 313
1	–	–	–	1	4	1
–	328	3 042	–	3 370	3	2 838
526	457	(468)	–	515	3	453
–	–	(17 866)	17 866	–	3	3 209
236	–	(236)	–	–		275
14	–	(14)	–	–		–
1 014	1 585	2 692	17 847	23 138		27 944

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		2002 M'000	2001 M'000
6. INTEREST IN ASSOCIATED COMPANIES (continued)			
Notes			
1. All shares of M1 each, fully paid			
2. Year ended unless stated otherwise			
3. Based on audited financial statements			
4. Companies which have not started operations, investment shown at cost			
CORPORATION			
Provision for losses			
At beginning of year		**15 519**	16 188
Write-off during year		**–**	669
At end of year		**15 519**	15 519
7. OTHER INVESTMENTS	**% Holding**		
Unlisted equity shares:			
Lesotho Housing and Land Development Corporation	–	**958**	958
Zero coupon loan stock (RSA Govt. Bond) Corporation		**9 263**	8 203
		10 221	9 161
Frasers Lesotho Ltd Group	3	**–**	–
		10 221	9 161
8. LONG-TERM DEBTORS			
Corporation and Group			
Loan debtors at varying rates of interest and repayment terms		**1 228**	774
Unrealised foreign exchange losses (per policy 2.9)		**6 987**	2 779
		8 215	3 553
9. STOCKS			
Group			
Raw materials		**6 183**	6 638
Finished goods and merchandise		**8 994**	10 938
Consumable stores		**4 920**	5 484
Work in progress		**3 700**	3 575
Total stocks		**23 797**	26 635

	Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
10. ACCOUNTS RECEIVABLE				
Realised foreign exchange losses due from Government of Lesotho	**690**	2 555	**690**	2 555
Building rental	**11 556**	8 600	**11 556**	8 600
Others	**(1 798)**	918	**14 963**	21 789
	10 448	12 073	**27 209**	32 944

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 2002 M'000	2001 M'000	2002 M'000	2001 M'000
(a) Corporation				
Subsidiaries	**–**	–	**–**	–
Associates	**610**	–	**–**	–
Third parties	**–**	800	**–**	800
	610	800	**–**	800
(b) Group				
Associates	**610**	–	**–**	–
Third parties	**–**	800	**–**	800
	610	800	**–**	800

	2002 M'000	2001 M'000	2002 M'000	2001 M'000
12. COMMITMENTS				
Capital commitments contracted for:				
– Buildings and equipment	**3 336**	–	**3 336**	–
Authorised but not committed:				
– Buildings and equipment	**–**	–	**10 446**	13 878
	–	–	**10 446**	13 878
Total capital commitments	**3 336**	–	**13 782**	13 878

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

		Corporation 2002 M'000	Corporation 2001 M'000	Group 2002 M'000	Group 2001 M'000
13.	**TURNOVER**				
	Turnover is the amount receivable by the Group in the ordinary course of business for goods supplied and services rendered.				
14.	**OPERATING PROFIT FOR THE YEAR**				
	Stated after crediting or charging the following:				
	Income				
	Profit/(Loss) on disposal of fixed assets	**142**	(1 946)	**353**	(2 190)
	Interest	**6 025**	3 244	**7 621**	5 807
	Rents	**27 147**	26 271	**27 147**	26 271
	Income from subsidiaries	**18 870**	19 222	**–**	–
	Dividends	**18 870**	19 172	**–**	–
	Interest and guarantee commission	**–**	50	**–**	–
	Expenses				
	Depreciation and amortisation of fixed assets	**5 071**	5 138	**12 168**	11 097
	Auditors remuneration: Audit fees	**228**	106	**347**	251
	Interest	**12 637**	12 826	**12 662**	14 301
15.	**TAXATION**				
15.1	Normal tax on current profits			**6 728**	6 613

15.2 According to the Statutory Bodies Laws (Amendment) Order No.16 of 1989, LNDC, with effect from 1 August 1989, became liable for tax. At 31 March 2001 no provision was made as the Company had tax losses which have yet to be assessed.

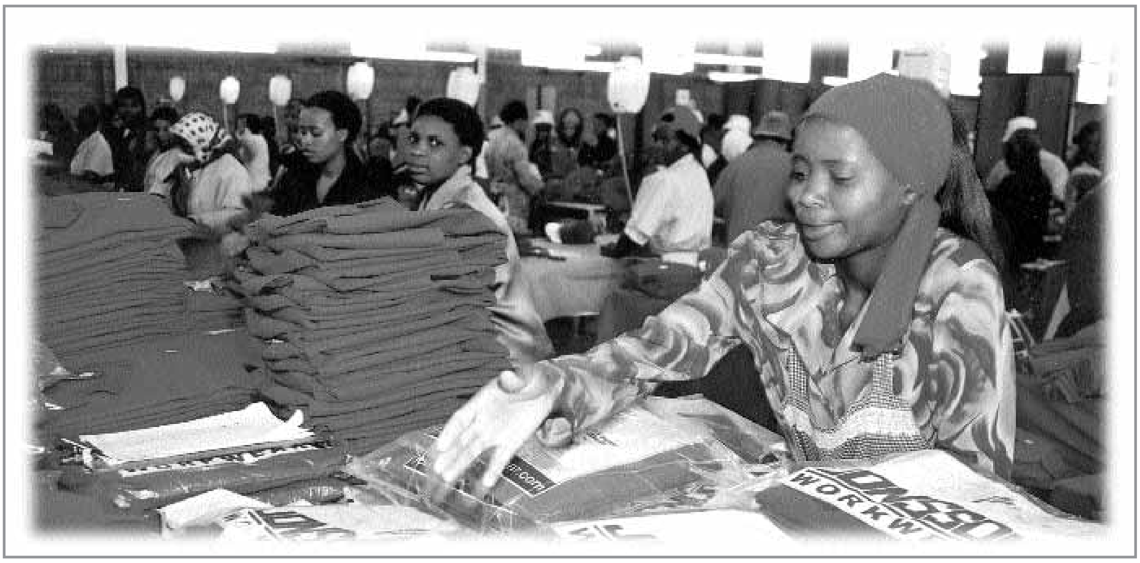
15.3 The laws of Lesotho preclude the setting off of losses incurred by one group taxpayer against the taxable income of another, i.e. there is no group relief.

		Corporation		Group	
		2002	2001	**2002**	2001
		M'000	M'000	**M'000**	M'000
16.	**NOTES TO THE CASH FLOW STATEMENT**				
16.1	**Reconciliation of operating profit to net cash inflow from operating activities**				
	Profit before tax	**15 636**	10 703	**36 482**	34 006
	Return on investment	**6 612**	9 582	**5 041**	8 494
	Depreciation	**5 071**	5 138	**9 096**	11 097
	Profit on sale of fixed assets	**(142)**	1 946	**(353)**	2 190
	Amortisation of grants	**(160)**	–	**(160)**	1 507
	Amortisation of containers	**–**	–	**3 071**	2 007
	Associates income	**–**	–	**4 103**	2 804
	Prior year adjustment	**362**	–	**362**	–
	Grants received	**4 342**	–	**4 342**	–
	Revaluation surplus	**(4)**	–	**(4)**	–
	Increase in stock	**–**	–	**2 838**	(3 144)
	Decrease in debtors	**1 625**	6 624	**5 735**	5 637
	Decrease in creditors	**(558)**	1 957	**(5 329)**	7 678
	Net cash inflow from operating activities	**32 784**	35 950	**65 224**	72 276
16.2	**Returns on investments**				
	Interest received	**6 025**	3 244	**7 621**	5 807
	Interest paid	**(12 637)**	(12 826)	**(12 662)**	(14 301)
		(6 612)	(9 582)	**(5 041)**	(8 494)
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(14 225)**	(9 013)	**(28 012)**	(14 936)
	Receipts from sale of fixed assets	**580**	9 858	**4 174**	10 077
		(13 645)	845	**(23 838)**	(4 859)

NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2002 M'000	2001 M'000	**2002 M'000**	2001 M'000
16.3	**Capital expenditure**				
	Payments to acquire fixed assets	**(14 225)**	(9 013)	**(28 012)**	(14 936)
	Receipts from sale of fixed assets	**580**	9 858	**4 174**	10 077
		(13 645)	845	**(23 838)**	(4 859)
16.4	**Management of liquid resources**				
	Decrease in amounts owing by associates	**563**	580	**703**	(6 005)
	Decrease in amounts owing by subsidiaries	**9 579**	(5 254)	**–**	–
	Increase in outside shareholders interest	**–**	–	**(1 450)**	(373)
	Increase in loan debtors	**(4 662)**	(1 006)	**(4 662)**	(1 006)
	Increase in other investments	**(1 060)**	(984)	**(1 060)**	(742)
		4 420	(6 664)	**(6 469)**	(8 126)
16.5	**Financing**				
	Increase/(decrease) in long term loans	**175**	(4 393)	**175**	(4 393)
16.6	**Analysis of cash at end of year**				
	Bank balances and cash	**1 386**	15 633	**14 507**	42 460
	Bank overdraft	**–**	–	**(173)**	(174)
	Short term investments	**54 245**	22 876	**56 064**	24 696
		55 631	38 509	**70 398**	66 982



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