

# Lesotho National Development Corporation Annual Report 2003/2004



With compliments of the Board of Directors, Management and Staff

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# CORPORATE PROFILE

## LNDC Act

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

## LNDC mandate

The mandate of the Corporation as stipulated in section 4 subsection 1 of the LNDC Order 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 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; projects appraisal services; after care services; financial assistance on a selective basis; and where possible, selective and limited equity participation in projects considered to be of strategic importance to the economy.

## Capital Structure

In 2003/04 the Corporation's authorised share capital was M55 million. The fully paid-up share capital was M40 million, comprising M36 million ordinary shares and M4 million preference shares.

## Organisation Structure

The Corporation's structure comprises eight divisions: Investment Promotion; Entrepreneurial Development; Operations; Asset Management; Finance; Internal Audit; Human Resources; and Legal. 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 who are responsible for formulating overall policy direction.

## 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, 2003 to March 31, 2004. 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.

# BOARD OF DIRECTORS

2003/2004

## CHAIRMAN

### **Mr D M Rantekoa**

Principal Secretary; Ministry of Trade and Industry, Cooperatives and Marketing

## MEMBERS

### **Mrs L Tshabalala**

Representative of the Ministry of Finance and Development Planning

### **Mrs M Motselebane**

Representative of the Ministry of Agriculture and Food Security

### **Mr K Mpasa** (*up to 30/06/03*)

Representative of the Ministry of Tourism, Environment and Culture

### **Mr J T Metsing** (*w.e.f. 01/09/03*)

Representative of the Ministry of Tourism, Environment and Culture

### **Mr P Mokhesi**

Representative of the Private Sector

### **Dr M Ramatlapeng**

Representative of the Private Sector

### **Mr O S M Moosa**

Representative of the Lesotho Chamber of Commerce and Industry

### **Mrs A S Mkorosi**

Representative of the Lesotho Manufacturers Association

### **Mr T Mochekele**

Representative of the Lesotho Consumer Organisation

## CHIEF EXECUTIVE

### **Mrs S M Mohapi**

Lesotho National Development Corporation

## CORPORATE SECRETARY

### **Mr C T Poopa**

## POSTAL ADDRESS

Lesotho National Development Corporation  
Private Bag A96  
Maseru 100  
Lesotho

## HEAD OFFICE

Development House  
Kingsway Road  
Maseru 100  
Telephone: 266-22 312012  
Telefax: 266-22 310038  
E-mail: [info@lndc.org.ls](mailto:info@lndc.org.ls)  
Website: [www.lndc.org.ls](http://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

# EXECUTIVE & MANAGEMENT TEAM

2003/2004

## EXECUTIVE TEAM

**Mrs Sophia Mohapi**

Chief Executive

**Mr Motebang Mokoaleli**

Head, Investment Promotion Centre

**Mr Mokhethi Shelile**

Head, Entrepreneurial Development

**Mrs 'Mathabo Klass**

Head, Operations

**Mr Lebohang Mofammere**

Head, Asset Management

**Mr Letuka Sephelane** *(up to 01/08/03)*

Financial Controller

**Mr Sam Mphaka** *(w.e.f. 06/10/03)*

Financial Controller

**Ms Lucy Mataboe**

Head, Human Resources

**Mr Clark Taelo Poopa**

Head, Legal & Corporate Secretary

**Ms Teboho Lekalakala**

Chief Internal Auditor

## MANAGEMENT TEAM

**Mrs Lesa Makhoalibe**

Public Relations Manager

**Mrs Felleng Makeka**

*(up to 29/09/03)*

Manager, Investment Promotion

**Mrs 'Mampho Mahase**

Senior Project Manager

**Ms Marina Maloi**

Projects Manager

**Ms Fumane Maema**

Projects Manager

**Mr Molupe Mohale**

Projects Manager

**Mr Justice Sello Ts'ukulu**

Industrial Relations Manager

**Mrs Nthabiseng Posholi**

Senior Accountant

**Mr Litlhokoe Daniel Mohlomi**

Information Technology Manager

**Ms 'Majane Lesala**

Senior Internal Auditor

## CORPORATE VISION

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

- i) To develop a thriving and profitable manufacturing and processing industry, together with a modern commercial sector that will support the economic development and generate full employment for Basotho.
- ii) To ensure that the local business community plays an active role in the industrial development of the country.
- iii) To ensure optimal utilisation of local resources into high value industrial products.
- iv) To turn LNDC into a quality service delivery and client oriented organisation.
- v) To turn LNDC into a financially strong and reliable investment vehicle for its shareholders.

The expected output from this vision includes:

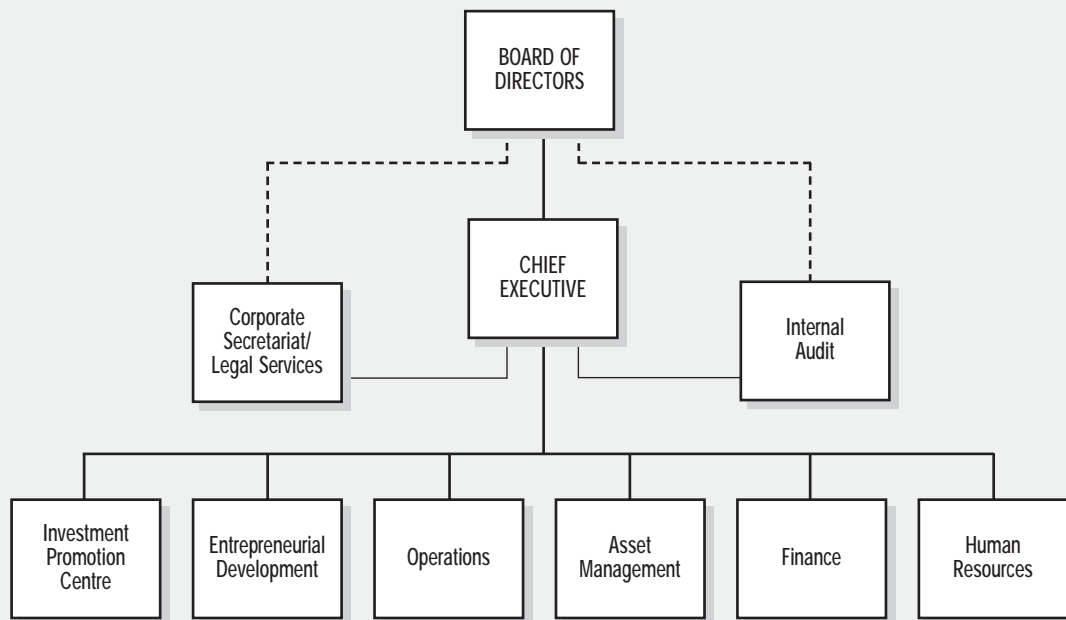
- a) Generation of new investment projects and expansions especially in labour intensive industries.
- b) Employment generation and improved living standards.
- c) Enhancement of Lesotho's competitiveness.
- d) Increased participation of local businesses through the provision of strategic support and promotion of linkages.





# ORGANISATIONAL STRUCTURE

2003/2004



## STATEMENT BY THE 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, 2004.

Pursuant to contemporary practice of good corporate governance, the LNDC's Board of Directors' paramount role is to provide policy direction to the Corporation. This is done primarily to assist the Corporation to achieve its growth and development objectives as enshrined in its founding Act. LNDC policy framework is to a large extent influenced by local, regional and international developments.

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



**D M Rantekoa**  
*Chairman*

The economy of Lesotho grew by 3.1% in 2003. This was a slightly lower growth compared to 3.5% in 2002. Lesotho's economic growth in 2003 was mainly driven by the performance of the secondary sector. The sectoral value-added was 41.2% of gross domestic product (GDP). The key driver within the sector was the manufacturing sub-sector. The sub-sector contributed 19.7% to total output. The manufacturing sub-sector value-added grew by 5.2% in 2003. At 5.2% growth, the manufacturing sub-sector grew at a higher rate than the average economic growth of 3.1% in 2003. The garment industry was the single biggest contributor to the performance of the manufacturing sub-sector for the period under review. During this period the garment industry accounted for 54% of the manufacturing output. This reflects a higher performance compared to 2002 when the industry accounted for 50% of the manufacturing output.

During the review period the world economy grew by 3.9% compared to 3% recorded in 2002. Africa's economy grew by 4.3% compared to 3.5% in 2002. The United States (US) economy, which is Lesotho's biggest destination for manufactured exports, grew by 2.6% in 2003 from 2.4% in 2002. China which is a major source of Lesotho's imported manufacturing inputs experienced inflation of 2.5% in 2003. Low inflation in China assists Lesotho manufacturing exporters to compete effectively in international markets. This is because imported raw materials are sourced at competitive prices.

The economic and trade related developments that took place in the reporting period generated positive outcomes in the performance of the Corporation via the performance of the garment industry. The latter grew by 14.6% in 2003 mainly due to a buoyant US economy. Low inflation in China mentioned earlier, also provided further stimulus on the industry as Lesotho's garment exporters source raw material inputs from China. This made it possible for Lesotho made garment exports to compete favourably in the US market. The economic developments in the US and China therefore had a direct positive impact on the performance of the garment industry, the manufacturing sub-sector and the economy as a whole. This was despite the decline in Lesotho's GDP from 3.5% in 2002 to 3.1% in 2003. The performance of the garment sub-sector assisted LNDC to generate additional 5,039 in new jobs to 48,564 for the year ended March 2004. For the same period exports grew by US\$80 million to US\$400 million. This performance



## STATEMENT BY THE CHAIRMAN

(continued)

represents a 12% increase in new jobs and 25% increase in exports.

In terms of trade related developments, the following deserve a mention. The review of the Southern African Customs Union (SACU) trade policy was concluded and presented to the World Trade Organisation (WTO) in April 2003. This review introduced significant changes in the modus operandi of the common customs area. SACU is a catalyst to sustainable economic growth and development for member countries in the sub-region. Key improvements in the review of the SACU trade policy included the institutional strengthening of the customs union. Significant provisions of the new SACU treaty have included the creation of the SACU Secretariat, the SACU Tariff Board and a Tribunal to settle trade related disputes. Other requirements of this review were the development of common policies on industrial development, competition and unfair trade practices.

Lesotho took a decision to negotiate Economic Partnership Agreements (EPAs) with the European Union (EU). Successful conclusion of the EPAs will provide Lesotho products with a predictable and long term market access to the EU market.

The fourth round of free trade negotiations between SACU and the US was resumed in February, 2004. One of the objectives of these negotiations is to deepen the success that has been achieved through the African Growth and Opportunity Act (AGOA) as well as formalise the provisions of AGOA within the trade agreement. The negotiations are scheduled for completion at the end of 2004 to coincide with the expiry of some AGOA provisions.

On the local front Lesotho undertook an Investment Policy Review (IPR). The review was designed to improve the local investment environment. It was conducted with the assistance of the United Nations Conference on Trade and Development (UNCTAD) and was concluded in April, 2003. The role of LNDC in this exercise was to provide inputs relating to investors' perceptions of the Lesotho's investment climate.

During the year under review, Management and the Board engaged in the development of new policies. These new policies were designed to align LNDC's operations with major economic and trade related developments which took place during the year. In July, 2003 LNDC initiated the process of developing a strategic plan. The objective of this strategic plan was to assist the Corporation to respond and take advantage of opportunities and challenges posed by changes in international trade policies. The strategic plan would therefore assist the LNDC to understand key external challenges and developments that affect its current and future performance.

In 2003 LNDC also set in motion the development of the risk management policy. The risk management policy is expected to assist the Corporation in the evaluation and management of operational risks and other forms of risk that are likely to scupper the good progress the Corporation has so far achieved. In addition to the above, the Board in June, 2003 approved a new job grading and staff reward system based on the Patterson model.

Notwithstanding the foregoing policy developments, LNDC continued to face some difficult challenges during the review year which can be listed as follows:

- The declining and impending elimination of trade preferences under the WTO new trade order of reciprocity and non-discrimination;

## STATEMENT BY THE CHAIRMAN

(continued)

- The declining global import and export tariffs ;
- The plethora of free trade agreements;
- The imminent expiry of the Multi-fibre Arrangement (MFA), on the 31st December 2004.

The foregoing challenges will open up Lesotho's manufactured export products to fierce competition from more efficient producers.

I draw this statement to a close by once again acknowledging contributions of the LNDC Board, Management and Staff, for their efforts in pursuit of LNDC goals and objectives. I also acknowledge the contributions by co-operating partners in development and other key stakeholders who have been instrumental in assisting LNDC to stay the course.



# REPORT OF THE CHIEF EXECUTIVE

## A. FINANCIAL PERFORMANCE

### 1. PERFORMANCE AND STATUS ANALYSIS

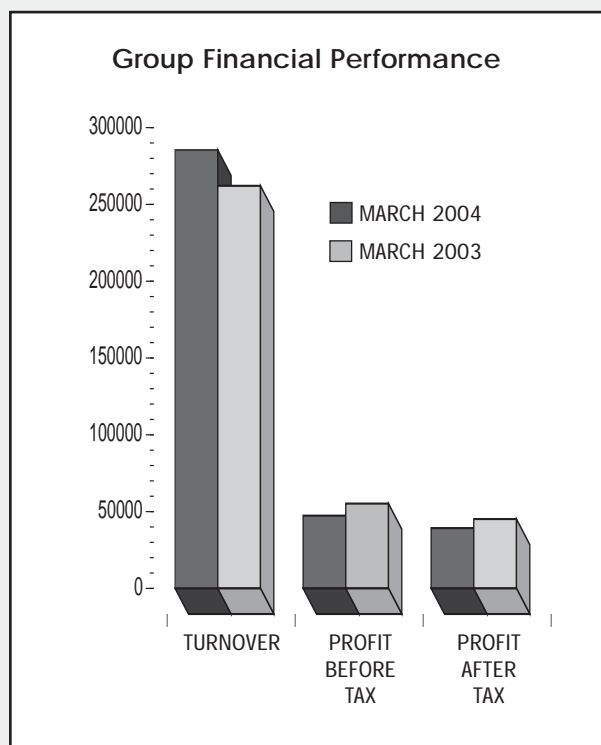
The LNDC Group Financial Statements for the year ended 31 March 2004, from which the data provided in Table 1 below was drawn, indicate the Group's financial performance as follows.

#### 1.1 TURNOVER/OPERATING INCOME

##### a) Group

The Group's turnover (T/O) increased from M262.1 million in 2002/2003 to M285.4 million in 2003/2004. The increase was M23.3 million or 8.9%. One of the major factors that generated the increase, despite a slow-down in the performance of the economy was the Group's aggressive marketing initiatives. Profit before tax (PBT) decreased from M55.2 million in 2002/03 to M47.4 million in 2003/04. It was a decrease of M7.9 million or 14.2%. Similarly, profit after tax (PAT) decreased from M47.9 million to M39.4 million. It was a decrease of M8.5 million or 17.7%. The major reason for the decline of PBT and PAT was the losses for the year that were experienced by some members of the Group. As a result of the decrease in profitability for the year, reported return on capital employed (ROCE) declined from 11.1% in 2002/2003 to 9.2% in 2003/2004. In the same manner earnings per share (EPS) decreased from 35 Lisente/share to 31 Lisente/share.

Figure 1 at right summarises the Group's performance for the year and status at the end of the year



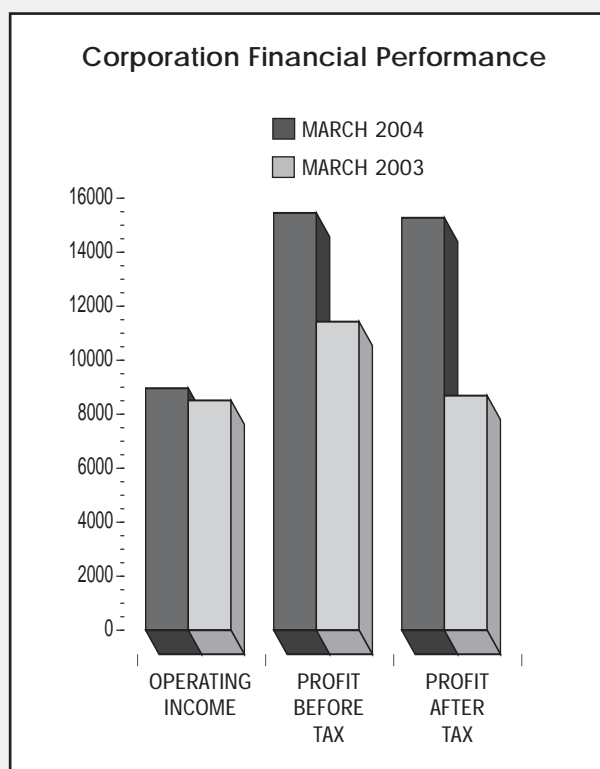
# REPORT OF THE CHIEF EXECUTIVE

(continued)

## b) Corporation

The Corporation's operating income (O/I) for the year was M8.9 million when compared with M8.5 million in 2002/2003. It increased by M0.5 million or 5.3%. The increase was primarily attributable to rental income. PBT was 15.5 million when compared with M11.4 million in 2002/2003. It increased by M4.0 million or 35.2%. PAT was M15.3 million compared with M8.7 million in 2002/2003. It increased by M6.6 million or 75.8%. Similarly, ROCE and EPS increased by 33.9% and 75.8%, respectively. The increase in PBT and PAT was attributable to growth in dividends received from subsidiaries and associates.

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

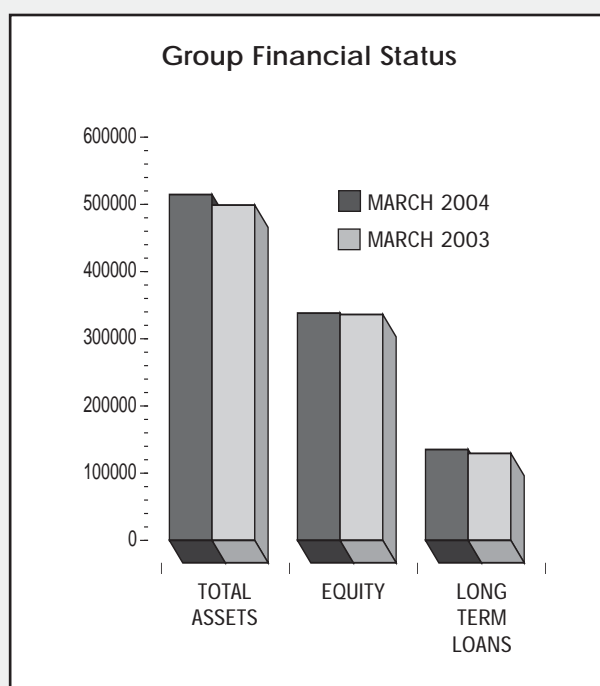


## 1.2 TOTAL ASSETS, EQUITY AND LONG TERM LIABILITIES

### a) Group

The Group's total assets grew by M15.6 million or 3.1% from M498.9 million in 2002/2003 to M514.6 million in 2003/2004. The primary driver of the growth was the profit generated during the year. The assets were financed by the shareholders' equity and long term loans (LTL). The shareholders' equity increased by M2.1 million or 0.6% from M336.1 million to M338.2 million. The increase was attributable to profit generated during the year. Due to the last draw-downs made during the year on international loans that had been approved in prior years, LTL increased by M5.7 million or 4.4% from M129.5 million to M135.2 million.

Figure 3 at right depicts the analysis above.



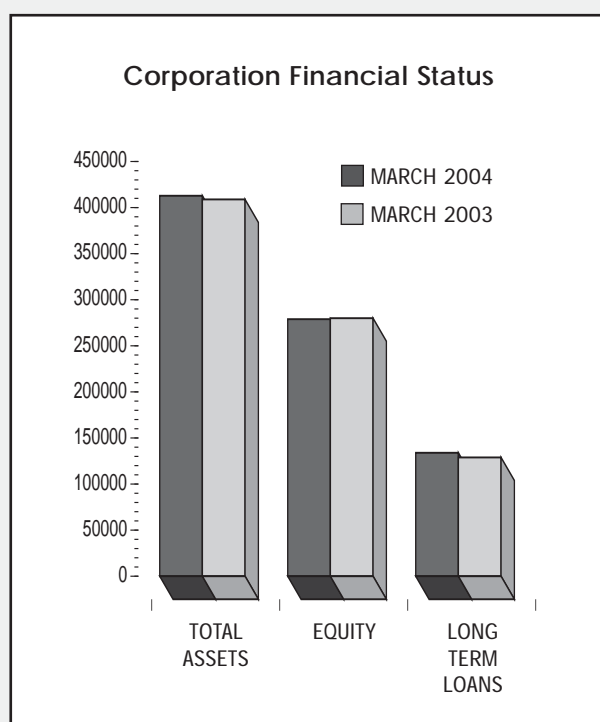
# REPORT OF THE CHIEF EXECUTIVE

(continued)

## b) Corporation

The profit recorded during the year and the last draw-downs on international loans referred to above, were the main drivers for the growth of M3.9 million or 1% in Corporation's total assets. The shareholders' equity, however, declined by M1.1 million or 0.4% as a result of a prior year adjustment of provision for loss on investment in one subsidiary. Long term loans increased by M5.0 million or 3.9% as a result of the draw-downs referred to above.

Figure 4 at right depicts the above analysis.



	Group					Corporation			
	% Increase/ (decrease)	Increase/ (decrease) M'000	31st Mar 2004 M'000	31st Mar 2003 M'000		% Increase/ (decrease)	Increase/ (decrease) M'000	31st Mar 2004 M'000	31st Mar 2003 M'000
Turnover O/I	8.9	23,297	285,396	262,099		5.3	451	8,963	8,512
Profit before tax	-14.2	(7,866)	47,356	55,222		35.2	4,027	15,456	11,429
Profit after tax	-17.7	(8,460)	39,440	47,900		75.8	6,587	15,276	8,689
Total assets	3.1	15,625	514,619	498,994		1.0	3,954	412,804	408,850
Equity	0.6	2,072	338,221	336,149		-0.4	-1,080	278,890	279,970
Long-term liabilities	4.4	5,732	135,189	129,457		3.9	5,034	133,914	128,880
Return on capital employed (%)	-16.8	-1.9	9.2	11.1		33.9	0.9	3.7	2.8
Earnings per share (Lisente)	-13.1	-4.61	30.67	35.28		75.8	5.15	11.9	6.79

## CONCLUSION

The Group's financial position as at 31 March 2004 was satisfactory with a growth of M15.6 million or 3.1% in total assets. The growth was financed by a combination of profit after tax of M39.4 million and net loans amounting to M5.7 million.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## B. OPERATIONAL ACTIVITIES

### 1. INVESTMENT PROMOTION

Foreign investment promotion is one of the Corporation's key functions undertaken to achieve LNDC's growth and development agenda.

Two key objectives in investment promotion are:

- i) To promote Lesotho as a destination of choice for Foreign Direct Investment (FDI).
- ii) To contribute to the enhancement of Lesotho's attractiveness to FDI.

LNDC undertakes foreign investment promotion by performing the following functions:

- i) Conduct research on investment and development opportunities in Lesotho.
- ii) Conduct investment and investor targeting activities.
- iii) Develop marketing information and materials for investment promotion programme.
- iv) Carry out investment promotion programme in order to attract investments.
- v) Advocate for laws, policies, regulations and incentives that will facilitate investment attraction.

#### 1.2 PROMOTIONAL ACTIVITIES CONDUCTED DURING THE YEAR

##### 1.2.1 New Projects

Investment promotion efforts in the year made a contribution towards generation of 7 new FDI projects. The majority of FDI projects promoted were in knitwear manufacturing but also included an embroidery project to support the garment exporting manufacturers. New FDI projects created 1966 new jobs and FDI flows amounting to M23 million.

##### 1.2.2 TRADE AND INVESTMENT POLICY ACTIVITIES

###### 1.2.2.1 Policy Reviews

The Corporation actively participated and contributed in activities aimed at enhancing Lesotho's investment climate. Key investment environment issues that were pursued with the aid of international organisations during the reporting period are outlined below:

- i) The development of the Poverty Reduction and Growth Facility (PRGF) by the International Monetary Fund (IMF) in which the Corporation played an active part.
- ii) LNDC participated in the development of Lesotho Investment Policy Review which was led by the United Nations Conference on Trade and Development (UNCTAD). The purpose of this policy document was to support investment promotion through provision of legal protection to FDI projects.
- iii) The LNDC also participated in the development of a programme on Good Governance in Investment Promotion and Facilitation (GGIP). GGIP is the UNCTAD programme, targeted at least developed countries (LDCs) to enhance their capacity to attract FDI by streamlining their investment procedures.



# REPORT OF THE CHIEF EXECUTIVE

(continued)

- iv) The Corporation took part in the drafting of a Memorandum of Understanding (MoU) on investment in an attempt to raise the economic profile of SADC member states to the international investor community and also to rid the sub-region of negative outward perception. The MoU was in progress at the end of the reporting period.

## 1.2.2.2 Negotiations on Investment, Trade and Market Access

LNDC continued to participate in international trade negotiations aimed at creating sustainable trade and investment opportunities for Lesotho. The negotiations involved the following economic groupings: Southern African Customs Union (SACU) - US Free Trade Area, SACU - MERCOSUR (a conglomerate of South American States namely, Argentina, Brazil, Paraguay and Uruguay) FTA, and SACU-/EFTA (a conglomerate of Europe's Non-European Union member states namely, Norway, Iceland, Switzerland and Liechtenstein) FTA. By end of the year all these negotiations were still on-going.

## 1.2.2.3 Round Table Negotiations of Bilateral Investment Treaties (BITS)

LNDC formed part of the Lesotho delegation that participated in a round table negotiation on BITS in Geneva which was led by the Ministry of Trade and Industry, Cooperatives and Marketing. The purpose of BITS was to promote trade and investment between participating countries by providing protection, transparency and predictability in the investment environment of countries hosting investments.

## 1.2.2.4 US-Africa Trade Summit

The Corporation participated at a biennial summit organised and coordinated by the Corporate Council of Africa (CCA). The main objective of the meeting was to enhance trade and investment ties between the US and 53 African countries. Important decisions and recommendations that came out of this summit were:

- i) The launching by the American Commission of a ten-year strategy to increase private sector capital flows to Africa.
- ii) Programme for the extension of AGOA to 2015.
- iii) Programme for commencement of FTA negotiations between SACU and US.

## 1.2.3 Site Visits

There were 10 site visits that were hosted during the reporting period.

Notable site visits included the following:

- An Italian company which proposed to manufacture bottled water for the African market;
- A clothing company from Mozambique that proposed to manufacture from Lesotho for the US and other international markets enjoying preferential access from Lesotho manufactured products.

The prospects were being followed up as at the end of the financial year.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 1.2.4 Trade Fairs, Meetings and Exhibitions

LNDC participated at a South African International Trade Exhibition (SAITEX) which was held in Johannesburg in October, 2003. LNDC conducted one to one meetings to present investment opportunities to over 30 companies that were considered to be prospects to set-up in Lesotho. These companies included prospects in garments manufacturing, electronics and electrical assembly as well as in shoe manufacturing. These prospects originated from China, Taiwan and Thailand. Their interest was to conduct business in the region. LNDC marketing materials which included Investors' Guides, brochures and newsletters were shared with prospects.

LNDC further participated at the China-Africa Forum in Addis Ababa, Ethiopia in December, 2003. As has been the case with SAITEX, one-to-one meetings were conducted with 43 Chinese companies who were interested to exploit investment opportunities in Africa. The LNDC was able to solicit six (6) potential leads in electronics and electrical assembly, clothing and textiles as well as in pharmaceuticals.

All key investment leads were still being pursued by the end of the financial year.

## 1.3 RESEARCH ACTIVITIES

### 1.3.1 Maintenance of LNDC database

The Corporation maintains a database of LNDC assisted portfolio of projects. The objective is to monitor the performance of this portfolio in terms of meeting LNDC development objectives as well as informing government industrial development policies.

### 1.3.2 Development of marketing materials for investment promotion programme

The Investors' Guide cover was updated during the review period, to reflect current status of the investment environment and incentives in Lesotho. This was the first review of the Investors' Guide since its initial publication in 1992.

The Investors' Guide is a marketing tool that provides detailed information about the Lesotho's investment climate and doing business in Lesotho. It includes incentives and other selling points to project Lesotho as a destination of choice for investment.

## 1.4 CHALLENGES

The following challenges were noted during the review year.

- Lesotho's Investment policies and regulations were still lacking in relation to competitors offerings. Incentives offered to potential investors were also inadequate relative to what competitors were offering.
- There was a general uncertainty surrounding factory space availability. This put the LNDC in a difficult situation of having to respond negatively to prospective investors because of shortage of factory space.

The Implementation of Lesotho's investment policy review recommendations is expected to substantially improve Lesotho's investment climate.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 2. ENTREPRENEURIAL DEVELOPMENT

The Corporation attaches high priority in the development of local or indigenous entrepreneurs. Its main objective is to promote and integrate Lesotho's private sector into the mainstream of the national, regional and international markets.

To achieve the stated objective LNDC undertakes the following functions:

1. Entrepreneurship Training
2. Promotion of new and appropriate technology
3. Technical Assistance
4. Marketing Assistance
5. Promotion of joint ventures
6. Access to finance

### 2.1 ACTIVITIES GEARED TOWARDS LOCAL PRIVATE SECTOR DEVELOPMENT

The financial year 2003/2004 experienced a modest increase in local private sector pipeline projects from 17 during the previous year to 20. Table 1 provides the information by functions mentioned above and specific business activities.

Private Sector Pipeline - 2003/2004

Business Activity	Value of Deal	Classification by Function
Computer Solutions	M 750 000.00.	Joint Venture, Technological Transfer
Sandstone Mining	M 70 000.00	Market Access
Gems	M 20 000.00.	Market Access, Financial Assistance
Mohair Products	M10 000	Marketing, Joint Venture and Market Access
Garment Printing	M8 514	Training
Paving Bricks	M20 000	Technical Assistance/Training,

### 2.2 CHALLENGES

Despite the apparent success, the Corporation continues to be constrained by lack of resources to assist the local private sector.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 3. ASSET MANAGEMENT

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

### 3.1 OBJECTIVES

The purpose of Asset Management function is to:

- a) ensure that the Corporation's property portfolio has the optimum mix of assets.
- b) ensure that the Corporation's property portfolio is soundly managed and performs at its optimum level.

### 3.2 FUNCTIONS OF ASSET MANAGEMENT

- a) Property portfolio composition
- b) Acquisition of new assets
- c) Performance of the property portfolio

### 3.3 ACTIVITIES

#### 3.3.1 Property Management/Maintenance

The asset management function provides property development and management services to a mixed property portfolio ranging from residential to industrial portfolio throughout Lesotho. JHI Real Estate Limited (outsourcing company) had been tasked with the responsibility of managing the multiple aspects of owning real estate property such as letting, rent collection and maintenance. The performance of JHI in terms of letting the Corporation's physical property has been satisfactory however; the maintenance aspect remains a fundamental challenge, which warrants a strong attention in terms of maintaining and controlling costs. The total property portfolio stood at 229,164 m<sup>2</sup> build up area made up of 169,800 m<sup>2</sup> factory shells, 54,364 m<sup>2</sup> and 5,000m<sup>2</sup> residential. The portfolio average vacancies were as presented below:

#### 3.3.2 Industrial Portfolio

The period under review has evidenced an improvement in the occupancy level of the industrial portfolio from 97% to 98.2%.

#### 3.3.3 Commercial Portfolio

This sector performed comparably well with an occupancy level of 80%.

#### 3.3.4 Residential Portfolio

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

### 3.4 PROPERTY DEVELOPMENT

The period under review saw the development of infrastructure services such as roads and water reticulations at the newly acquired Mohale's Hoek Industrial Estate which measures around 7 hectares.

During the reporting period 22,000 m<sup>2</sup> of factory space was added to the industrial property portfolio at the cost of M38, 479,724.95. The demand for industrial space continued to be high as well as for commercial property. The Corporation took advantage of this situation by developing the Thetsane mini-shopping Centre to provide quality retail space.

In the reporting period, M2, 777,685.00 were spent on maintenance and modification jobs.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 4 OPERATIONS

The Division monitors the performance of the Corporation's equity and loan portfolios, including providing after care services to the leasehold portfolio.

Corporate operations mainly entail the following:

- i. Assisting potential investors to develop bankable projects;
- ii. Overseeing the Corporation's equity and loan portfolio companies in order to ensure that they yield good returns to maximise shareholders value;
- iii. Providing customer service to portfolio companies;
- iv. Maintenance of industrial peace and stability within the LNDC's equity and leasehold portfolio of companies.

### 4.1 NEW LEASEHOLD COMPANIES

There were 10 new companies that started their operations in Lesotho and their product lines, employment and initial investment are as shown below:

SNo.	Name of Company	Product	Initial employment	Initial investment (in M)
1	Lesotho Atlantic	Knitwear	480	5m
2	Everunison	Embroidery/Knitwear	80	1.4m
3	Shiang Bei	Embroidery	300	2.6m
4	CTM Orthopaedics	Prosthetics	5	0.2m
5	Procom	Footwear	46	3m
6	Baneng	Knitwear	400	4m
7	Santi Kon	Knitwear	600	5m
8	Astoria Bakery	Bakery	50	0.5m
9	Fabric and Print Converters	T-Shirts	114	1.6m
10	New Epoch	Knitwear	60	2m
	<b>Total</b>		<b>2135</b>	<b>25.3m</b>

These companies brought in capital investments of around M25 million and employed around 2000 additional people. Out of the 10 new companies that started operations during the year, one company employing 46 workers was shutdown in December 2003.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 4.2 EXISTING LEASEHOLD AND EQUITY PORTFOLIO

During 2003/04, the Corporation managed a total portfolio of 64 companies consisting of leasehold, subsidiaries, associates and other investments.

- a) The leasehold portfolio monitored during the review period consisted of 55 companies with total employment of 39,770 workers.
- b) The subsidiaries, associates and other investments commonly called the equity portfolio, monitored during the period consisted of nine (9) companies. The total employment was 1,222 people. The equity portfolio consists of agro business, building and construction, essential services and wholesale and retail sectors. The agro business sector was the best performer during the period. In addition, the LNDC participated in a total of 44 Board meetings of the respective portfolio companies.

## 4.3 CUSTOMER SERVICES

The following customer services were offered to the LNDC portfolio of companies during the year under review: visas, work permits, residence permits, border passes, manufacturing licences, pending permits and company registration.

The summary of customer services provided by the Division is as shown below:

Type of Activities	Number
Visas	1,072
Work permits	153
Residence permits	110
Boarder passes	14
Pending permits	6
Manufacturing licences	6
Registration of companies	2

The Operations Division also facilitated and provided advisory services on compliance and adherence to industrial relations policies for the leasehold portfolio.

## 4.4 INSPECTIONS

During the period under review 28 inspections were carried out by international organisations representing buyers in co-operation with LNDC. The aim of these factory inspections was to ensure that the LNDC-assisted companies comply with the labour laws of Lesotho and codes of conduct of the buyers. The short-comings which were noticed during the inspections were brought to the attention of a company concerned and rectified.

## 4.5 ILLEGAL STRIKES

During the review period 15 wild-cat strikes were carried out by workers in the LNDC assisted companies. LNDC intervened in all these strikes and assisted both the workers and management to reconcile their differences. Almost all the disputes were resolved within a day through the support of LNDC. This was a good sign that the labour situation had improved given that the industry was affected by over 25 wild-cat strikes in the previous year.



# **REPORT OF THE CHIEF EXECUTIVE**

(continued)

## **4.6 BRIBERY CASES**

In the review period, 10 cases concerning bribes were brought to the attention of LNDC to assist in the disciplinary hearings of those involved. These bribes were collected by some of the supervisors and personnel managers when recruiting new employees. Those who were found guilty were dismissed summarily.

## **4.7 WAGE NEGOTIATIONS**

The employers association and workers' union, namely, Lesotho Textile Exporters Association (LTEA) and Lesotho Clothing and Allied Workers Union (LECAWU) respectively negotiated wage increases for their members in the clothing and textile industry. The parties agreed that trained machinists be paid M650.00 per month instead of the gazetted minimum wage of M616.00 per month. They further agreed that untrained machinists be paid M616.00 per month whilst on training for six months instead of their gazetted minimum rate of M589.00 per month. They finally agreed that the employees performing light physical work be paid M600.00 instead of their gazetted minimum rate of M589.00 per month.

## **4.8 FORMATION OF ANOTHER WORKERS UNION**

Due to internal squabbles within the union officials of the Lesotho Clothing and Allied Workers Union (LECAWU), which led to the dismissal of 3 organisers of the union by their General Secretary, another rival union called Factory Workers Union (FAWU) was formed. It is now the most representative union in the whole industry which negotiates wages annually with the employers' organisation, LTEA.

## **4.9 REDUNDANCY AND RETRENCHMENTS**

During the review period 8 companies closed their businesses in Lesotho. As a result 3,637 employees were retrenched. This closure was mainly associated with the appreciation of the Rand against US Dollar and other market related problems. The companies which were affected were Mountain Eagle, San Yong, Lekim Textile, O-River, Carca Components, Procom, CeeBee and F-River. Other new companies were established to take over from Lekim and Mountain Eagle. These were Baneng (Pty) Ltd and Alley Cat Clothing (Pty) Ltd respectively.

## **4.10 CHALLENGES**

The following challenges were encountered when carrying out corporate operations:

- a) During the period under review, there was a lot of demand of factory buildings. As a result it became difficult to process allocation of potential projects hence a lot of projects remained in the pipeline awaiting availability of factory buildings.
- b) The process leading to construction of factory shells took a long time and that led to some of the potential investors losing hope and leaving to invest in other countries.
- c) The AGOA third country fabric provision, that was going to expire at the end of September, 2004 caused a lot of uncertainty among investors.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## C. CORPORATE SERVICES

### 1. HUMAN RESOURCES

Human Resources functions mainly serve to support the Corporation in accordance with following objectives:

- a) To facilitate recruitment, selection and maintenance of human resources;
- b) To facilitate development of a highly professional and motivated staff complement;
- c) To provide efficient administrative services.

In order to achieve the above-mentioned objectives, the Human Resources division performs the following functions:

- a) Formulation, review, implementation and monitoring of the Human Resources policies, procedures and regulations;
- b) Recruitment, selection and placement;
- c) Remuneration and benefits;
- d) Training and Development;
- e) Handling of Disciplinary Proceedings and Grievances
- f) Administrative Functions
- g) General Staff Welfare

### 1.1 ACTIVITIES CARRIED OUT DURING THE YEAR

#### 1.1.1 Recruitment, Selection and Placement

During the year under review, the Corporation lost three employees, namely the Financial Controller, Investment Promotion Manager and Investment Promotion Officer through resignations. However, a new Financial Controller was immediately recruited together with a Research Officer and a Projects Officer.

#### 1.1.2 Training and Development

The Corporation continued to invest in the development of its human resources. A total of 24 training programmes in the form of workshops, seminars and short courses were offered to staff members.

Annex I gives detailed information on training activities for 2003/2004.

# REPORT OF THE CHIEF EXECUTIVE

(continued)

TRAINING OPPORTUNITY	ORGANISER / TRAINING INSTITUTION	DATES AND VENUE	PARTICIPANTS
1. Optimising Cash and Liquidity	Marcus Evans	5-6 May 2003 South Africa	Accountant
2. Advanced Management Training for Executive Assistants	Institute of Development Management (IDM)	8-27 June 2003 Botswana	Office Support Assistants
3. Aligning Human Resources with Organisational Challenges – The Changing Role in HR	Moruo Communications	1-2 July 2003 South Africa	Head, Human Resources
4. Strategic Management Workshop (in-house)	Consultant from NUL	5-6 July 2003	Executive Committee members & Board members
5. Effective Written Communication	Institute of Development Management (IDM)	26 July-16 August 2003 Botswana	Office Support Assistants
6. Project Finance	Marcus Evans	28-29 July 2003 South Africa	Project Managers
7. Driver's Workshop	Global Conferences	16-17 August 2003 Lesotho	Drivers
8. Workplace Solutions for HIV/AIDS in Africa	Excellente International	18-20 August 2003 South Africa	Head, Human Resources
9. 19th Biannual Seminar on South African Labour Law Reports	Van Zyl Rudd & Associates	20 August 2003 South Africa	Industrial Relations Manager, HR Officer & Legal Officer
10. The Best Internal Audit Practices (in-house)		9 September 2003	Executive Committee members & Audit and Risk Management Committee
11. Internal Auditing	Institute of Development Management (IDM)	18-19 September 2003 Swaziland	Internal Auditor
13. Business Valuation	Centre for Management Development	29-30 September 2003 South Africa	Project Managers
14. Advocacy Trial	The Law Society of Lesotho	6-11 October 2003 Lesotho	Head, Legal & Legal Officer
15. The 8th African Congress of Shopping Centres	South African Council of Shopping Centres	12-14 October 2003 South Africa	Head, Asset Management
16. Regional Workshop on Investor Servicing and Aftercare	World Association of Investment Promotion Agencies (WAIPA)	12-15 October 2003 Dakar, Senegal	Investment Promotion Officer
17. Effective Report Writing	Institute of Internal Auditors	30-31 October 2003 South Africa	Chief Internal Auditor
18. Women in Leadership and Management Positions	Excellente International	17-19 November 2003 South Africa	Head, Operations
19. Strategic Planning Workshops (in-house)	Consultant from NUL	24 November 2003	Executive Committee members
20. Engineering Project Management	CAPCAN AFRICA	26-28 November 2003 South Africa	Head, Asset Management
21. Managing Public Assets, Minimise Cost and Maximise Performance	Marcus Evans	9-10 February 2004 South Africa	Asset Management Officer
22. Risk Management (in-house)	Moruo Communications	29-30 March 2004	Executive Committee members
23. B.Com Honors in Accounting	University of Free State	1 year effective 1st February 2004 South Africa	Senior Accountant
24. BSc. Honors in Computer Science	University of Cape Town	1 year effective 1st February 2004 South Africa	Systems Administrator

# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 2. PUBLIC RELATIONS

### 2.1 Objective

The objective of the PR Office is to plan and conduct public relations programmes designed to create and maintain a favourable national and international image of Lesotho and LNDC with the primary aim of attracting potential investors and highlighting the benefit to Basotho.

### 2.2 Functions

The Public Relations Office achieves its objective by carrying out the following functions:

2.2.1 Image building activities to enhance and create awareness about the Corporation.

2.2.2 Production of promotional material such as Investors' Guides, promotional videos/DVDs, quarterly newsletters to mention a few.

2.2.3 Organising and participating in international investment promotion seminars to attract potential investors to Lesotho.

2.2.4 Organising and participating in local breakfast meetings where existing investors discuss topics of mutual interest with Government and other stakeholders.

2.2.5 Facilitating social responsibility programmes to create goodwill between the Corporation and the community.

### 2.3 Highlights of 2003/4 Activities

The Public Relations Office carried out the following activities during the reporting period:

### 2.4 First LNDC Industrial Estate in Mohale's Hoek



*Left to right: United States Ambassador, His Excellency Robert Loftis; Hon. Mpho Malie; Mr. Jecy Lu and the Rt. Hon. Mr. Pakalitha Mosisili at Mohale's Hoek Industrial Estate*

# REPORT OF THE CHIEF EXECUTIVE

(continued)



*The Rt. Hon. The Prime Minister breaking the ground for Mohale's Hoek Industrial Estate and Lesotho Fancy Garments Co.*

A new four-hectare industrial estate was officially inaugurated in Mohale's Hoek on the 23rd May 2003 by the Right Honourable the Prime Minister, Mr. Pakalitha Bethuel Mosisili. The occasion was also marked by a sod turning ceremony to mark the start of construction of 8,000 m<sup>2</sup> of factory buildings on the site to accommodate a fabric knitting plant promoted by the Lesotho Fancy Garments Group. The project would create 5,000 jobs at full production in 2005.

Construction of the buildings would be financed entirely by LNDC to the tune of M16 million.

## 2.5 Rehabilitation of LNDC Centre

The Right Honourable the Prime Minister, Mr. Pakalitha Mosisili officially opened the LNDC Centre Phase II which was razed to the ground during the Black September, 1998 political riots. The project was co-financed by Nedbank Lesotho to tune of M9.7 million while LNDC financed the balance of M10 million. The reconstruction comprised a shopping and office complex.

## 2.6 Nordic/SADC Initiative for Small and Medium Businesses

The Chief Executive of LNDC, Mrs. Sophia Mohapi officially opened a workshop to familiarize the Lesotho Business Community with the activities of the NORSAD Agency, a joint NORDIC/SADC initiative aimed at providing project financing to small and medium-sized enterprises in the SADC region since 1991.

Over 40 small to medium scale companies participated in the workshop. Following the workshop, LNDC received several proposals seeking assistance from NORSAD. The NORSAD Agency is based in Lusaka, Zambia and operates in all SADC countries.



# REPORT OF THE CHIEF EXECUTIVE

(continued)

## 2.7 Investment Promotion in India

LNDC was part of a Government delegation led by the Prime Minister, the Right Honourable Pakalitha Mosisili to the Republic of India in August, 2003 at the invitation of the Prime Minister of India, Shri A.B. Vajpayee.

Vital communication links were established with influential businesses and of particular mention was a potential investor planning to establish a M20 million turnkey break pads manufacturing plant.

## 2.8 Visit of Her Majesty Queen 'Masenate Mohato Bereng Seeiso to LNDC Industries

LNDC hosted a two-day familiarization tour of LNDC Industrial estates by Her Majesty Queen 'Masenate Mohato Bereng Seeiso in August, 2003. Her Majesty visited the Thetsane, Maseru West, Ha Nyenye and Maputsoe Industrial estates and toured eight (8) clothing, textiles and footwear companies.

These companies were the C & Y Group, CGM Group, Lesotho Fancy Garments, Lesotho Precious Garments, Shinning Century, B.A. Tex, Springfield Footwear and Lesotho Umbrella company. At the time, the companies collectively employed over 22,000 Basotho.

Her Majesty was accompanied by the Honourable Minister of Tourism, Environment and Culture who was also Acting Minister of Trade and Industry; the Honourable Minister of Gender, Youth, Sports and Recreation as well as the Honourable Minister of Local Government.



*Her Majesty Queen 'Masenate Mohato Bereng Seeiso during her tour of LNDC factories*



## REPORT OF THE CHIEF EXECUTIVE

(continued)

### 2.9 LNDC Supports Positive Action

The LNDC-sponsored prize of M5,000 for an AIDS awareness campaign "Live and Let Live" or "Phela u Phelise" was won by Ms. Tampose Botsane, a factory worker in a t-shirt manufacturing firm, Santi Kon Textiles which is located at the Thetsane Industrial Estate.



*(left) The winner, Ms. Tampose Botsane and her M5,000.00 prize*

The Corporation responded positively to a request in support of a bilingual countrywide and interactive HIV/AIDS education campaign and competition. The campaign was sponsored by Development Cooperation Ireland and implemented by the Positive Action Society of Lesotho.

The competition ran for a period of three months from December, 2003 to February, 2004.

### 2.10 LNDC Donates Computers to Schools

LNDC presented 16 High Schools with used computers in recognition of their consistent outstanding performance in various categories chosen in consultation with the Examinations Council of Lesotho.

In addition LNDC donated a computer to the SOS Children's Village to assist them in their day-to-day administrative duties.

### 2.11 Trade and Industry Minister Interacts with Industrialists

65 manufacturing industrialists attended a breakfast meeting organized by LNDC and hosted by the Honourable Minister of Trade and Industry, Cooperatives and Marketing in February, 2004 at the Maseru Sun Hotel.

The meeting offered an opportunity for interaction between the Government, stakeholders and industrialists on topics of mutual interest.

# FINANCIAL STATEMENTS

for the year ended 31 March 2004

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## Directors' Approval

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



*DIRECTOR*



*DIRECTOR*

# **REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO NATIONAL DEVELOPMENT CORPORATION AND ITS SUBSIDIARY COMPANIES FOR THE YEAR ENDED 31 MARCH 2004**

Moores Rowland Chartered Accountants, under Section 15 (1) of the Audit Act have audited the annual financial statements and group annual financial statements of Lesotho National Development Corporation and its Subsidiary Companies set out on pages 29 to 48 for the year ended 31 March 2004. These financial statements are the responsibility of the Directors of the Corporation. My responsibility is to express an opinion on these financial statements based on my audit.

## **SCOPE**

I conducted the audit in accordance with International Auditing Standards. Those standards require auditors to plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit includes:

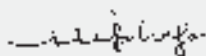
- Examining on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- Assessing the accounting principles used and significant estimates made by management, and
- Evaluating the overall financial statements presentation.

I believe that my audit provides a reasonable basis for my opinion.

## **AUDIT OPINION**

The financial Statements of the Corporation depict M7.6 million as rental debtors (net of rental deposits) as opposed to M9.4 million per JHI Real Estates (Pty) Ltd accounts. In 2003 a prior year adjustment of M3.5 million was effected to correct a similar variance in that particular year.

Except for any adjustments which may be required from the matter referred to in the preceding paragraph, in my opinion, the financial statements fairly present, in all material respects, the financial position of the Corporation and the Group at 31 March 2004 and the results of their operations and cash flows for the year then ended in accordance with Generally Accepted Accounting Practice, and in the manner required by the Lesotho National Development Corporation Order 1990.



**L L Liphafa (Mrs)**

*AUDITOR GENERAL*

# STATEMENT OF GROUP ACCOUNTING POLICIES

## 1. PRINCIPAL ACTIVITIES

The Corporation operates under the Lesotho National Development Corporation 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 and on which it has control.

### 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 significant interest.

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

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

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

### 2.4 Investment

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

### 2.5 Method of Determining Stock Values

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

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

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

# STATEMENT OF GROUP ACCOUNTING POLICIES

(continued)

## 2.6 Depreciation of Fixed Assets, Land and Buildings:

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

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

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

### Other Fixed Assets

The values of other fixed assets are depreciated on 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

### Corporation

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

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 31 March 1990. Since that date realised exchange differences are dealt with in the Income Statement. Unrealised exchange differences are held as suspense debtors or creditors until cleared.

### Subsidiary Companies

Realised exchange differences are dealt with in the Income Statement.

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

# STATEMENT OF GROUP ACCOUNTING POLICIES

(continued)

## 2.10 Grants Received

### 2.10.1 *By Subsidiaries:*

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

### 2.10.2 *By the Corporation:*

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

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

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

## 2.11 Retirement and Terminal Benefits

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





# INCOME STATEMENT

for the year ended 31 March 2004

		Corporation		Group	
	Notes	2004 M'000	2003 M'000	2004 M'000	2003 M'000
Turnover	<b>13</b>	—	—	<b>285 396</b>	262 099
Operating income	<b>14</b>	<b>8 963</b>	8 512	<b>39 930</b>	47 065
Income from associates		<b>6 493</b>	2 917	<b>7 426</b>	8 157
Income before tax		<b>15 456</b>	11 429	<b>47 356</b>	55 222
Taxation	<b>15</b>	—	—	<b>(7 916)</b>	(7 322)
Income after taxation		<b>15 456</b>	11 429	<b>39 440</b>	47 900
Minority interests		—	—	<b>(20 681)</b>	(18 106)
Income from ordinary activities		<b>15 456</b>	11 429	<b>18 759</b>	29 794
Extraordinary item		—	(2 500)	—	(2 500)
Net income for the year		<b>15 456</b>	8 929	<b>18 759</b>	27 294
Preference share		<b>(180)</b>	(240)	<b>(180)</b>	(240)
		<b>15 276</b>	8 689	<b>18 579</b>	27 054
Prior year adjustment	<b>2</b>	<b>(16 301)</b>	(3 353)	<b>(16 301)</b>	(3 353)
At beginning of year		<b>71 918</b>	66 582	<b>125 319</b>	101 618
		<b>70 893</b>	71 918	<b>127 597</b>	125 319
Capitalised as share capital		<b>(67 955)</b>	—	<b>(67 955)</b>	—
At end of year		<b>2 938</b>	71 918	<b>59 642</b>	125 319



# BALANCE SHEET

at 31 March 2004

		Corporation		Group	
	Notes	2004 M'000	2003 M'000	2004 M'000	2003 M'000
<b>CAPITAL EMPLOYED</b>					
Share capital	<b>1</b>	<b>128 000</b>	40 000	<b>128 000</b>	40 000
Non-distributable reserves	<b>2</b>	<b>147 952</b>	168 052	<b>150 579</b>	170 830
Retained income		<b>2 938</b>	71 918	<b>59 642</b>	125 319
Shareholders' funds		<b>278 890</b>	279 970	<b>338 221</b>	336 149
Outside shareholders' interest		—	—	<b>41 209</b>	33 388
Long-term loans and provisions	<b>3</b>	<b>133 914</b>	128 880	<b>133 914</b>	128 880
Deferred liabilities		—	—	<b>1 275</b>	577
		<b>412 804</b>	408 850	<b>514 619</b>	498 994
<b>EMPLOYMENT OF CAPITAL</b>					
Fixed assets	<b>4</b>	<b>387 566</b>	326 444	<b>469 565</b>	395 261
Interest in subsidiary companies	<b>5</b>	<b>2 406</b>	20 321	—	—
Interest in associated companies	<b>6</b>	<b>206</b>	746	<b>24 816</b>	28 159
Other investments	<b>7</b>	<b>13 536</b>	11 497	<b>23 402</b>	19 090
Loan debtors	<b>8</b>	<b>5 564</b>	5 468	<b>5 564</b>	5 468
		<b>409 278</b>	364 476	<b>523 347</b>	447 978
<b>Current assets</b>					
Stocks	<b>9</b>	—	—	<b>30 174</b>	23 956
Accounts receivable	<b>10</b>	<b>7 386</b>	1 910	<b>22 521</b>	14 005
Short term investments		<b>21 908</b>	64 971	<b>21 908</b>	66 498
Bank balances and cash		—	2 894	<b>1 216</b>	8 335
		<b>29 294</b>	69 775	<b>75 819</b>	112 794
<b>Current liabilities</b>					
Bank overdrafts		<b>1 370</b>	—	<b>6 909</b>	687
Accounts payable		<b>24 398</b>	24 681	<b>76 946</b>	55 458
Taxation		—	—	<b>692</b>	4 913
Preference dividend		—	720	—	720
		<b>25 768</b>	25 401	<b>84 547</b>	61 778
<b>Net current liabilities</b>		<b>3 526</b>	44 374	<b>(8 728)</b>	51 016
		<b>412 804</b>	408 850	<b>514 619</b>	498 994

# CASH FLOW STATEMENT

for the year ended 31 March 2004

		Corporation		Group	
	Note	2004 M'000	2003 M'000	2004 M'000	2003 M'000
Net cash flow from operations	16.1	9 737	38 959	66 227	69 286
Returns on investments	16.2	(7 598)	(5 822)	(8 615)	(7 392)
Capital expenditure	16.3	(69 920)	(26 728)	(92 146)	(41 331)
Dividends paid		(900)	—	(13 760)	(6 370)
Taxation paid		—	—	(11 439)	(9 222)
Management of liquid resources	16.4	16 320	7 253	(3 232)	205
Financing	16.5	5 034	(1 428)	5 034	(1 428)
Decrease in cash in the year		(47 327)	12 234	(57 931)	3 748
Cash at beginning of year		67 865	55 631	74 146	70 398
<b><i>Cash at end of year</i></b>	<b>16.6</b>	<b>20 538</b>	<b>67 865</b>	<b>16 215</b>	<b>74 146</b>



# NOTES TO THE FINANCIAL STATEMENTS

	Corporation		Group	
	2004 M'000	2003 M'000	2004 M'000	2003 M'000
1. SHARE CAPITAL				
Authorised				
250 000 000 shares of M1 each	250 000	55 000	250 000	55 000
ISSUED AND FULLY PAID				
128 000 000 shares of M1 each	128 000	36 000	128 000	36 000
4 000 000 6% cumulative non-voting preference shares of M1 each	—	4 000	—	4 000
	128 000	40 000	128 000	40 000
2. NON-DISTRIBUTABLE RESERVES				
2.1 Development grants				
<i>Grants from Lesotho Government:</i>				
At beginning of year	24 150	11 382	24 150	11 382
Received during the year	—	12 768	—	12 768
Converted to share capital	(24 045)		(24 045)	
Transferred to income statement	(55)	—	(55)	—
At end of year	(50)	24 150	50	24 150
<i>Capital grants</i>				
At beginning of year	—	—	402	559
Adjustment during the year	—	—	—	(157)
At end of year	—	—	402	402
Total development grants	50	24 150	452	24 552
2.2 Bonus shares				
Capitalisation of post acquisition profits earned by a subsidiary				
At beginning of year	858	858	858	858
At end of year	858	858	858	858

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2004 M'000	2003 M'000	2004 M'000	2003 M'000
2. NON-DISTRIBUTABLE RESERVES (continued)				
2.3 Unrealised surplus				
Surplus on revaluation of land and buildings				
At beginning of year	143 044	48 645	143 456	49 057
Movement during the year	—	—	—	—
Additions	—	94 399	—	94 399
At end of year	143 044	143 044	143 456	143 456
2.4 Unrealised surplus				
Arising on the acquisition of subsidiaries				
At beginning of year	—	—	379	230
Movement during the year	—	—	—	149
At end of year	—	—	379	379
2.5 Attributable share in Associated Companies				
Capital grant	—	—	306	457
Share premium	—	—	400	400
Capitalisation of accumulated profits	—	—	328	328
Capital redemption fund	—	—	400	400
	—	—	1 434	1 585
2.6 Capital Redemption				
Capitalised revenue reserve to finance redemption of preference shares	4 000	—	4 000	—
	147 952	168 052	150 579	170 830
2.7 Prior Year Adjustment				
Full provision for investment in and loan to Loti Brick	16 301	3 353	16 301	3 353
3. LONG-TERM LOANS AND PROVISIONS				
Loans outstanding as detailed below:	142 408	136 869	142 408	136 869
Less: Current maturities included in accounts payable	(8 494)	(7 989)	(8 494)	(7 989)
	133 914	128 880	133 914	128 880

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2004 M'000	Group 2003 M'000
3. LONG-TERM LOANS AND PROVISIONS (continued)		
3.1 Corporation		
<b><i>Lesotho Bank:</i></b>		
5% loan repayable by annual instalments on an annuity basis over twenty years commencing 10 November 1979 guaranteed by Government of Lesotho	(14)	(14)
<b><i>European Investment Bank Global Loan I</i></b>		
4% and 8% loans repayable in eight years commencing 1 March 1991	291	323
<b><i>European Investment Bank (Industrial Estate)</i></b>		
5% loan of ECU 1.4 million repayment schedule Not yet agreed	11 074	12 319
<b><i>Frasers Limited:</i></b>		
Interest free loan with no fixed date of repayment	6	6
<b><i>DEG</i></b>		
6% income notes repayable in full in March, 2004	—	3 248
<b><i>Government of Lesotho:</i></b>		
<b><i>IDA</i></b>		
7% loan repayable in twenty yearly instalments commencing 1 July 2000	13 862	14 282
<b><i>KFW (OLD)</i></b>		
3/4% loan repayable over fifteen years after a five year grace period from a date to be determined	883	883
<b><i>ODA 1</i></b>		
8% loan repayable in fifty half yearly instalments commencing 1 June 1988	144	144
<b><i>ADB</i></b>		
4% loan repayable in twenty yearly instalments commencing 1 July 2000	23 721	9 675
<b><i>ODA II</i></b>		
8% loan. Repayable over 25 years commencing 1 July 1991	231	231
Carried forward	49	41 097

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2004 M'000	Group 2003 M'000
3. LONG-TERM LOANS AND PROVISIONS (continued)		
3.1 Corporation (continued)		
Brought forward	49	41 097
<b>ODA III</b>		
8% loan. Repayable over 25 years commencing 1 July 1991	320	320
<b>ODA 1st line of credit</b>		
7% loan ODA line of credit. Repayable over 25 years commencing 31 July 1995	1 820	1 654
<b>KFW (HA NYENYE)</b>		
5% loan from KFW for Ha Nyenye repayable in ten annual instalments commencing 22 September 2000	5 991	7 988
<b>ODA 2nd line of credit</b>		
7% loan, ODA line of credit. Repayable over 25 years commencing 22 September 1996	4 184	4 523
<b>Public Investment Commissioners</b>		
13,9% loan repayable after twenty year period	52 878	52 878
<b>European Investment Bank B</b>		
5% loan from EIB to GOL lent to LNDC		
Repayable in ten equal instalments commencing 31 October 1999	4 412	6 474
<b>Development Bank of Southern Africa</b>		
12% loan repayable in twenty-six half yearly instalments starting 30 September 1993	1 891	2 442
<b>GOL – LNDC Centre</b>		
5% loan repayable in 20 half yearly instalments after a five year grace period, commencing 23 March 1999	9 100	13 300
<b>Nedbank Lesotho</b>		
Interest is charged at prime minus 4% repayable in 10 years starting from 11 November, 2003 after 12 months moratorium	9 578	4 466
Total Corporation loans	140 372	135 142
Severance pay provision	2 036	1 727
	142 408	136 869



# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	<b>Corporation</b>			<b>Group</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>M'000</b>	<b>M'000</b>	<b>M'000</b>	<b>M'000</b>
<b>4. FIXED ASSETS</b>				
<b>4.1 Cost or valuation</b>				
Land and buildings	<b>399 168</b>	329 863	<b>441 804</b>	372 048
Plant, vehicles, furniture and equipment	<b>8 035</b>	7 488	<b>150 866</b>	130 519
	<b>407 203</b>	337 351	<b>592 670</b>	502 567
<b>Accumulated depreciation</b>				
Land and buildings	<b>14 086</b>	6 102	<b>37 843</b>	28 594
Plant, vehicles, furniture and equipment	<b>5 551</b>	4 805	<b>85 262</b>	78 712
	<b>19 637</b>	10 907	<b>123 105</b>	107 306
Net book value	<b>387 566</b>	326 444	<b>469 565</b>	395 261

## 4.2 Valuation of land and buildings

### Corporation

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



# NOTES TO THE FINANCIAL STATEMENTS

(continued)

Name	Principal activity	Equity held 2004 %	Cost of equity held directly M'000	Amounts owing M'000	Provision attributable net losses M'000	Net interest 2004 M'000	Net interest 2003 M'000	
5.	INTEREST IN SUBSIDIARIES							
5.1	Active subsidiaries							
	Basotho Fruit and Vegetable Canners (Pty) Ltd	Cannery	100	100	266	—	366	2 629
	Lesotho Brewing Company (Pty) Ltd	Brewery	51	2 040	—	—	2 040	14 280
	Loti Brick (Pty) Ltd	Brick making plant	73,6	8 032	8 474	(16 506)	—	3 412
				10 172	8 740	(16 506)	2 406	20 321
						2004 M'000	2003 M'000	
5.2	Provision for losses in subsidiaries:							
	Balance at beginning of year					13 094	10 220	
	Provision reversed					—	(539)	
	Increase in provision					3 412	3 413	
						16 506	13 094	

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	<b>Corporation</b>		<b>Group</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>M'000</b>	M'000	<b>M'000</b>	M'000
<b>6. INTEREST IN ASSOCIATED COMPANIES</b>				
Shares at cost	<b>236</b>	776	<b>236</b>	776
Share of non-distributable reserves	—	—	<b>1 128</b>	1 585
Share of retained income	—	—	<b>23 452</b>	25 798
Provision for losses	<b>(30)</b>	(30)	—	—
	<b>206</b>	746	<b>24 816</b>	28 159
Directors' valuation			<b>24 816</b>	28 159

Lesotho Pharmaceutical Corporation (LPC) and  
Frazers were reclassified under Other Investments  
in 2004



# NOTES TO THE FINANCIAL STATEMENTS

(continued)

## 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	20	30.06.04
Lesotho Food Industries (Pty) Ltd	Investment in LM Co	66 167	39,7	30.06.04
OK Bazaars Lesotho (Pty) Ltd	Retailers	150 000	50	30.06.04
Sun International Lesotho (Pty) Ltd	Hotel and casino	A 20/B 328 291	20	30.06.04
Lesotho Pharmaceutical Corporation	Drug manufacturer	526 000	11	31.03.04
Frazers			3	

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	Total interest M'000	Note	Total interest 31.03.01 M'000
20	400	2 295	2 715	3	2 432
66	—	12 977	13 043	3	15 751
150	400	6 002	6 552	3	6 013
—	328	2 178	2 506	3	3 182
—	—	—	—	3	781
—	—	—	—		—
236	1 128	23 452	24 816		28 159

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	2004 M'000	2003 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		
<b>Corporation</b>		
Provision for losses		
At beginning of year	30	15 519
Write-off during year	—	(15 489)
At end of year	30	30
7. OTHER INVESTMENTS		
Unlisted equity shares:		
Lesotho Housing and Land Development Corporation	958	958
LPC	526	—
Frazers	14	—
Zero coupon loan stock (RSA Govt. Bond) Corporation	12 038	10 539
	13 536	11 497
8. LONG-TERM DEBTORS		
CORPORATION AND GROUP		
Loan debtors at varying rates of interest and repayment terms	1 819	446
Unrealised foreign exchange losses (per policy 2.9)	3 745	5 022
	5 564	5 468
9. STOCKS		
GROUP		
Raw materials	4 942	7 187
Finished goods and merchandise	18 955	10 659
Consumable stores	4 203	4 217
Work in progress	2 074	1 893
Total stocks	30 174	23 956

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2004 M'000	2003 M'000	2004 M'000	2003 M'000
10. ACCOUNTS RECEIVABLE				
Realised foreign exchange losses	1 573	—	1 573	—
due from Government of Lesotho	190	(13)	190	(13)
Building rental	11 234	6 364	11 234	6 364
Provision and other debtors	(5 611)	(4 441)	9 524	7 654
	7 386	1 910	22 521	14 005

## 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	
	2004 M'000	2003 M'000	2004 M'000	2003 M'000
(a) Corporation				
Associates	610	610	—	—
Third parties	800	800	800	800
	1 410	1 410	800	800
(b) Group				
Associates	610	610	—	—
Third parties	800	800	800	800
	1 410	1 410	800	800

## 12. COMMITMENTS

Capital commitments contracted for:				
– Buildings and equipment	6 970	6 970	6 970	6 970
Authorised but not committed:				
– Buildings and equipment	—	—	12 584	23 000
	—	—	12 584	23 000
Total capital commitments	6 970	6 970	19 554	29 970

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



# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	<b>Corporation</b>		<b>Group</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>M'000</b>	<b>M'000</b>	<b>M'000</b>	<b>M'000</b>
<b>13. TURNOVER</b>				
Turnover is the amount receivable by the Group in the ordinary course of business for goods supplied and services rendered.				
<b>14. OPERATING PROFIT FOR THE YEAR</b>				
Stated after crediting or charging the following:				
<b>Income</b>				
Profit/(Loss) on disposal of fixed assets	<b>43</b>	62	<b>69</b>	(111)
Interest	<b>5 758</b>	7 203	<b>6 207</b>	7 907
Rents	<b>32 521</b>	29 527	<b>3 521</b>	29 527
Income from subsidiaries – dividends	<b>17 850</b>	18 870	–	–
<b>Expenses</b>				
Depreciation and amortisation of fixed assets	<b>8 841</b>	6 961	<b>17 911</b>	16 589
Auditors remuneration: Audit fees	<b>83</b>	105	<b>269</b>	253
Interest	<b>13 356</b>	13 025	<b>14 822</b>	15 299
<b>15. TAXATION</b>				
15.1 Normal tax on current profits			<b>7 218</b>	7 322
Deferred tax			<b>698</b>	–
			<b>7 916</b>	7 322
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 2004, 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.				

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

	Corporation		Group	
	2004 M'000	2003 M'000	2004 M'000	2003 M'000
16. NOTES TO THE CASH FLOW STATEMENT				
16.1 <i>Reconciliation of operating profit to net cash inflow from operating activities</i>				
Profit before tax	15 456	14 303	47 356	55 222
Return on investment	7 598	5 822	8 615	7 392
Depreciation	8 841	6 961	17 911	16 589
Profit on sale of fixed assets	(43)	(62)	(69)	111
Amortisation of grants	(55)	—	(55)	(157)
Associates income	—	—	2 016	(23 107)
Prior year adjustment	(16 301)	(3 353)	(16 301)	(3 353)
Grants received	—	12 768	—	12 768
Revaluation surplus	—	(5 378)	—	—
Increase in stock	—	—	(6 218)	(159)
Decrease in debtors	(5 476)	8 538	(8 516)	13 204
Increase/(Decrease) in creditors	(283)	(640)	21 488	(9 224)
Net cash inflow from operating activities	9 737	38 959	66 227	69 286
16.2 <i>Returns on investments</i>				
Interest received	5 758	7 203	6 207	7 907
Interest paid	(13 356)	(13 025)	(14 822)	(15 299)
	(7 598)	(5 822)	(8 615)	(7 392)
16.3 <i>Capital expenditure</i>				
Payments to acquire fixed assets	(70 070)	(26 966)	(95 871)	(41 628)
Receipts from sale of fixed assets	150	238	3 725	297
	(69 920)	(26 728)	(92 146)	(41 331)

# NOTES TO THE FINANCIAL STATEMENTS

(continued)

		Corporation		Group	
		2004 M'000	2003 M'000	2004 M'000	2003 M'000
16.	NOTES TO THE CASH FLOW STATEMENT (continued)				
16.4	<i>Management of liquid resources</i>				
	Decrease in amounts owing by associates	—	2 597	—	18 086
	Decrease in amounts owing by subsidiaries	17 915	3 185	—	—
	Increase in outside shareholders interest	—	—	—	(11 759)
	Increase in loan debtors	(96)	2 747	(96)	2 747
	Increase in other investments	(1 499)	(1 276)	(3 136)	(8 869)
		16 320	7 253	(3 232)	205
16.5	<i>Financing</i>				
	Increase/(decrease) in long term loans	5 034	(1 428)	5 034	(1 428)
16.6	<i>Analysis of cash at end of year</i>				
	Bank balances and cash	—	2 894	1 216	8 335
	Bank overdraft	(1 370)	—	(6 909)	(687)
	Short term investments	21 908	64 971	21 908	66 498
		20 538	67 865	16 215	74 146

