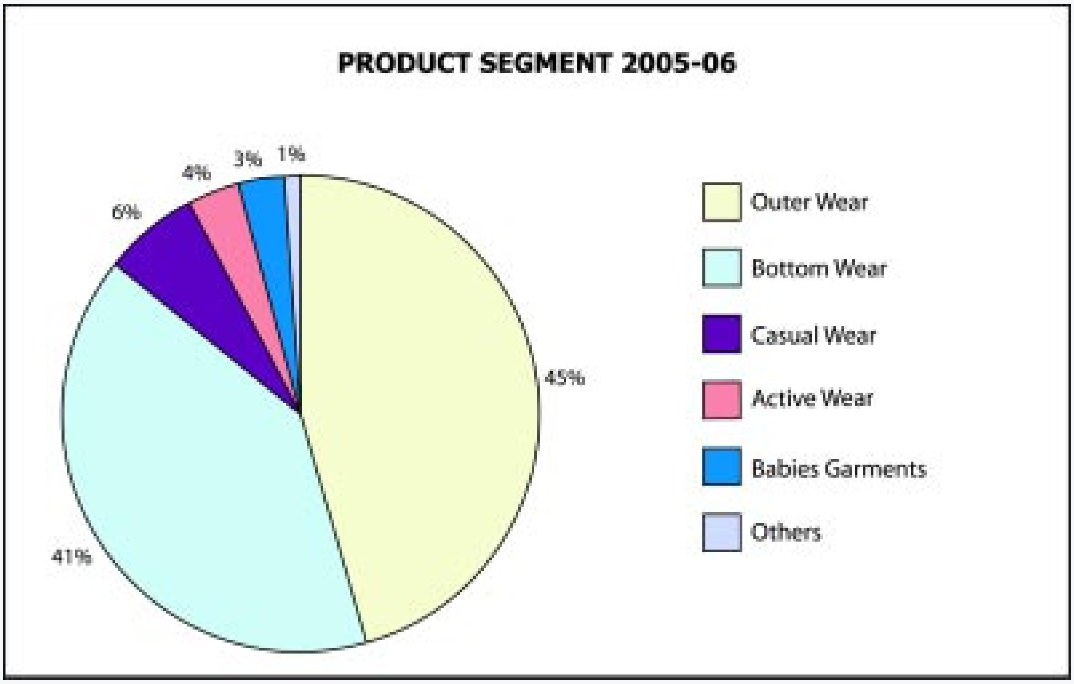
Introduction

Gokaldas Exports Limited (GEL) is the largest and one of the leading exporter of apparel and textile garments company in India having worldwide presence with established manufacturing, marketing and research capabilities and is a 9001:2002 certified company. GEL is vertically integrated with a presence across the apparel and textile products. GEL has more than 40 factories spreading in 37 locations in Bangalore, manufacturing more than 2.4 million garments per month.

The principal products that GEL produces are outer wear and bottom wear. Outerwear includes both sports wear and winter wear and bottom wear include casual pants, chinos, linen trousers, denim jeans etc. The following pie graph depicts the product mix for the year 2005-06:

Graphical representation of product mix



More than 97% of revenues come from export activity. GEL has big plans to enhance the production capacity to 2.5 million garments per month by the end of current fiscal. Towards this objective, we are investing more that Rs. 1000 million in the next two years, which would make us to further consolidate lead in the apparel and textile industry.

Industry Structure and Developments

The textile and clothing are closely related with textiles providing major input to the clothing industry. International trade were hitherto regulated by the Agreement on Textiles and Clothing (ATC) at the multilateral level with various bilateral and regional trade agreements. The ATC called for phasing out of quota restrictions by putting pre-condition to the formation of World trade Organization (WTO). The textile and clothing sector has become subject to the World Trade Organization (WTO), after removal of quotas from 1st January 2005. China has been re-imposed with restrictions both from E.U. and the U.S.A. which helps India to further increase its presence in the global apparel industry. India's performance during 2005 was a 32% jump compared to 2004. In the first four months of India's performance, January-April 2006, the growth was approx 35%, which is a clear indication of grabbing China's share of quotas.

The Indian textile industry plays a vital role in the Indian economy by contributing to GDP, generating employment and earning foreign exchange. An estimated 38 million people are directly employed in the textile industry in India and contributes to 4% of GDP and 20% of total export earnings. India currently exports more than one hundred garment product categories and out of this, cotton apparel exports dominate, contributing nearly 76% by value and synthetic constitutes 12%. Indian textile exports is expected to grow from the current levels to US$ 50 billion by 2010, consequent to quota removal, apparel being US$25 billion.

Opportunities and Threats

After dismantling of quotas, India seems to benefit due to raw material, design skills and skilled labour advantages. India is the world's third largest producer of cotton, second largest producer of cotton yarn, third largest exporter of cotton fabric and fourth largest exporter of synthetic fabric. With the establishment of training institutions like National Institute of Fashion Technology (NIFT), many high quality designers, who are able to create modern designs and interact with the buyers, are emerging. This is a distinctive advantage that Indian companies have, and not yet exploited.

India already enjoys a significant competitive advantage in terms of labour cost per hour over developed countries like USA, EU, Honk Kong, Taiwan Singapore etc. India is rich in traditional workers adept at value adding tasks such as embroidery, minor work, beading and at marketing complex garments. Apart from these, USA and EU imposed quotas on China recently, which would benefit India in consolidating its market share and good political relations with these two countries would further help.

Inspite of above advantages that India has, there would be pricing pressures in view of dismantling of quotas as new small and medium manufacturers would crop in not only within India but also from other countries where similar quotas were imposed earlier. Also India has geographical disadvantage which take little longer time to reach its products to the key markets. It seems the price has been, more or less, stabilized and the buyers are looking for quality manufactures, even it cost little more.

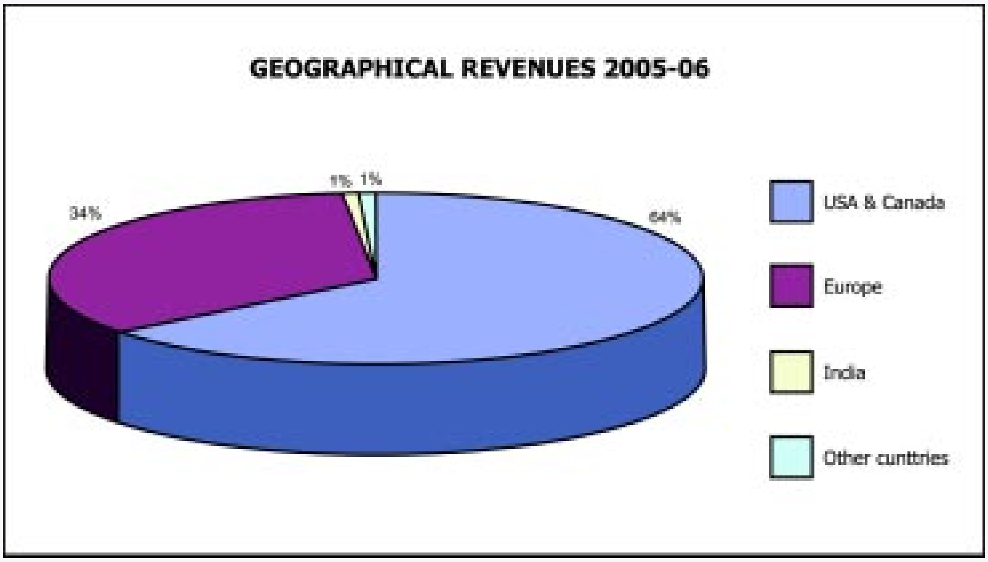
Operating Results / Financial Highlights

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and generally accepted accounting principles (GAAP) in India. The management accepts the responsibility for the integrity and objectivity of these financial statements and the basis for the various estimates and judgments used in preparing the financial statements.

During the year, the Company has achieved a net turnover of Rs.86195.58 lakhs, out of which 97.8% is in the form of foreign exchange. The Company posted a strong top line performance due to good order book. Profit before tax was at Rs 6794.04 lakhs and net profit after tax stood at Rs.6088.34 lakhs.

The higher net profit margin is due to our most of sales are to the foreign buyers, which enjoys higher margins. During 2005-06, USA & Canada dominated with a share of 64.57% of total turnover and Europe stood in the second with 33.67%.

Graphical representation of revenues from various geographical locations / countries:



Earnings per equity share (face value Rs.10/-) was also significantly higher from Rs. 29.01 to Rs.35.76 on year on year basis.

Some of the key performance indications are given below:

(Rs. in lakhs)

Particulars	2006	2005
Gross revenue	88881.58	71948.15
Profit before tax (PBT)	6794.04	4369.66
Ratio of PBT to Gross revenue (%)	7.64%	6.07%
Profit After Tax (PAT)	6088.34	3958.43
Ratio of PAT to Gross revenue	6.85%	5.51%
Earnings Per Share (EPS) (Rs.)	35.76	29.01

Risks and Concerns

Risks are of both internal and external. Internal risks shall include, but not limited to, our dependency on limited number of buyers. The Company's largest five buyers account for approx.78% of total revenue. Loss of any buyer or decrease in the volume of apparels they source from the Company may adversely affect revenues, pricing pressures and consequently profitability of the Company. Another risk factor is that with the opening up of international markets, after removal of quota system, there may be pricing pressure on products due to various suppliers who will start competing for the same orders in the international markets.

Apart from the above, we are exposed to foreign currency risk. The company is an export oriented apparel manufacturer and approx. 98.7% of its revenue comes as foreign currency. Since the buyers compare our products with that of competitors in USD denominated rate, appreciation of Indian rupee vis-à-vis USD would weaken our competitive position and similarly, our profits would depend on the Indian rupee appreciation/depreciation. Since the Company is Bangalore based and most of the factories/units are located in and around Bangalore, if there is any localized social unrest, break down of services and utilities, it may affect the business and consequently its revenues. To minimize the locational risks, the Company is setting up factories / units in Chennai, Mysore and Hyderabad.

The Government of India has instituted several policies to promote the growth and these include interest rate subsidies, duty/tax reimbursement schemes etc. Withdrawal/ termination of any of these policies / schemes may adversely impact the profitability of the Company. Also wage costs in India have been significantly lower than the wage costs in the developed countries for skilled professionals in the textile industry, which has been our competitive strength. Wage increase in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins.

However, the Company has put in place a Risk Management Document which has the objective to create an awareness about various risks associated with the business of the Company. It defines the risk policies, lays out the risk strategies and methodology to decide on the risk taking ability of the Company. The risk management process involves risk identification, risk measurement, risk prioritization, risk monitoring, risk escalation and risk mitigation. The Audit Committee and Board have approved this risk management document during last fiscal.

Internal Control Systems and their adequacy

The Company is committed to maintaining an effective system of internal control for facilitating accurate, reliable and speedy compilation of financial information, safeguarding the assets and interests of the Company and ensuring compliance with all laws and regulations. The Company has an internal control department to monitor, review and update internal controls on an ongoing basis. The Company has put in place a well defined organization structure, authority levels and internal guidelines for conducting business transactions.

The Company appointed independent internal auditors, who would monitor and review all transactions independently to get higher level of efficiency and would report directly to the Audit Committee, which consists of entirely independent directors, on quarterly basis. The Internal Auditors conducts audit all key business areas as per the pre-drawn audit plan. All significant audit observations and follow up actions are reported to the Audit Committee along Internal Audit reports and management's responses/replies. The minutes of Audit Committee would be reviewed by the Board for its suggestions/recommendations to further improve the internal control systems.

The Audit Committee periodically reviews audit plans, observations and recommendations of the internal auditors as well as external auditors with reference to significant risk areas and adequacy of internal controls.

Human Resources / Industrial Relations

The Company believes that its people are a key differentiator, especially in knowledge driven, competitive and global business environment. Adapting work culture to suit the dynamic balancing of people requirements and employee needs is an ongoing process. Fundamental HR processes which enable higher performance orientation, speed, skill and competency development, talent management and human asset refreshal are corner stones for the success of any organization.

As in the past, the industrial relations continued to remain cordial at all factories / units of the Company. The Company has 42,979 employees as on 31st March 2006 as against 35,234 employees as on 31st March 2005.

Caution Statement

Investors are cautioned that this discussion contains statements that involve risks and uncertainties. Words like anticipate, believe, estimate, intend, will, expect and other similar expressions are intended to identify such forward looking statements. The Company assumes no responsibility to amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events. Besides, the Company cannot guarantee that these assumptions and expectations are accurate or will be realized and actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements.